

Consolidated Financial Statements

Page	
56	Cognis Consolidated Balance Sheet
58	Cognis Consolidated Income Statement
59	Cognis Consolidated Statement of Changes in Equity
60	Cognis Consolidated Cash Flow Statement
61	Group Segment Reporting
65	Notes to the Consolidated Financial Statements
65	Basis of Presentation
65	Scope of Consolidation
65	Accounting Policies
74	Notes to the Consolidated Balance Sheet
89	Notes to the Consolidated Income Statement
95	Notes to the Consolidated Cash Flow Statement
96	Supplementary Information
109	Audit Opinion
110	Supervisory Board and Corporate Management
112	Responsibility Statement

Cognis Consolidated Balance Sheet

Assets					
As of December 31,	2008		2007		Note
	€ millions	%	€ millions	%	
Non-current assets					
Intangible assets	192	9.2	250	10.0	(1)
Property, plant and equipment	577	27.7	719	28.7	(2)
Investments	5	0.2	2	0.1	(3)
Other non-current assets	12	0.6	19	0.8	(6)
Deferred income tax assets	187	9.0	194	7.7	(19)
Total non-current assets	973	46.7	1,184	47.3	
Current assets					
Inventories	408	19.6	526	21.0	(4)
Trade receivables	423	20.3	566	22.6	(5)
Income tax refunds receivable	8	0.4	8	0.3	
Derivative financial instruments	3	0.1	7	0.3	(29)
Receivable from Cognis Holding GmbH	–	–	32	1.3	(6)
Other current assets	44	2.1	50	1.9	(6)
Cash and cash equivalents	226	10.8	132	5.3	(7)
Total current assets	1,112	53.3	1,321	52.7	
Total assets	2,085	100.0	2,505	100.0	

Equity and Liabilities					
	As of December 31,		2007		Note
	€ millions	%	€ millions	%	
Equity					
Equity attributable to the Group's equity holders	(812)	(38.9)	(716)	(28.6)	
Minority interests	1	0.0	106	4.2	
Total equity	(811)	(38.9)	(610)	(24.4)	(8)
Liabilities					
Non-current liabilities					
Provisions for pensions and similar obligations	405	19.4	435	17.4	(9)
Other provision—non-current portion	36	1.7	39	1.5	(9)
Borrowings—non-current portion	1,981	95.0	1,994	79.6	(10)
Derivative financial instruments—non-current portion	14	0.7	4	0.2	(29)
Other non-current liabilities	14	0.7	15	0.6	(12)
Deferred income tax liabilities	16	0.8	20	0.8	(19)
Total non-current liabilities	2,466	118.3	2,507	100.1	
Current liabilities					
Other provisions—current portion	112	5.4	138	5.5	(9)
Income tax provisions	5	0.2	6	0.2	(19)
Borrowings—current portion	35	1.7	73	2.9	(10)
Trade payables	236	11.3	347	13.9	(11)
Derivative financial instruments—current portion	5	0.2	–	–	(29)
Other current liabilities	37	1.8	44	1.8	(12)
Total current liabilities	430	20.6	608	24.3	
Total liabilities	2,896	138.9	3,115	124.4	
Total equity and liabilities	2,085	100.0	2,505	100.0	

Cognis Consolidated Income Statement

Continuing Operations					
	2008		2007 ¹⁾		Note
	€ millions	%	€ millions	%	
Sales	3,001	100.0	2,844	100.0	
Cost of sales	(2,295)	(76.5)	(2,125)	(74.7)	
Gross profit	706	23.5	719	25.3	
Marketing, selling and distribution costs	(319)	(10.6)	(322)	(11.3)	
Research and development costs	(85)	(2.8)	(81)	(2.9)	(13)
Administrative expenses	(86)	(2.9)	(90)	(3.2)	
Other operating income	50	1.7	64	2.3	(14)
Other operating expenses	(47)	(1.6)	(55)	(1.9)	(15)
Restructuring costs	(27)	(0.9)	(49)	(1.7)	(16)
Operating profit (EBIT)	192	6.4	186	6.6	(17)
Net financial result	(212)	(7.1)	(209)	(7.4)	(18)
Profit/(loss) before tax	(20)	(0.7)	(23)	(0.8)	
Income taxes	(29)	(1.0)	(82)	(2.9)	(19)
Net profit/(loss) for the period from continuing operations	(49)	(1.7)	(105)	(3.7)	
Net profit/(loss) for the period from discontinued operations²⁾	(14)		(15)		(20)
Net profit/(loss) for the period	(63)	(2.1)	(120)	(4.2)	
Attributable to:					
Equity holders of the Group	(70)		(124)		
Minority interests	7		4		
	(63)		(120)		

¹⁾ Restated in accordance with IFRS 5 to present the results of discontinued operations for 2007 separately

²⁾ Covering the period from January 1, 2008 up to the date of disposal

Cognis Consolidated Statement of Changes in Equity

€ millions	Attributable to equity holders of the Group						Minority interests	Total equity
	Capital reserves	Accumulated deficit	IAS 39 reserve	IAS 21 reserve	Currency translation reserve	Total		
Balance at January 1, 2007	205	(335)	2	-	(105)	(233)	113	(120)
Net profit/(loss) for the period	-	(124)	-	-	-	(124)	4	(120)
Translation differences	-	-	-	-	1	1	(6)	(5)
Dilution result from the contribution and/or sale of parts of the Oleochemicals business	-	4	-	-	-	4	(4)	-
Cash flow hedges								
Fair value gains/(losses)	-	-	(3)	-	-	(3)	-	(3)
Deferred taxes	-	-	4	-	-	4	-	4
Transfers from IAS 39 reserve to income statement	-	-	(8)	-	-	(8)	-	(8)
Net income/(expense) recognized directly in equity	-	4	(7)	-	1	(2)	(10)	(12)
Total recognized net income/(expense) for the period	-	(120)	(7)	-	1	(126)	(6)	(132)
Capital repayments and distributions	-	(357)	-	-	-	(357)	(1)	(358)
Balance at December 31, 2007	205	(812)	(5)	-	(104)	(716)	106	(610)
Net profit/(loss) for the period	-	(70)	-	-	-	(70)	7	(63)
Translation differences	-	-	-	-	(33)	(33)	4	(29)
Divestments	-	-	-	-	17	17	(116)	(99)
Cash flow hedges								
Fair value gains/(losses)	-	-	1	-	-	1	-	1
Deferred taxes	-	-	(1)	-	-	(1)	-	(1)
Transfers from IAS 39 reserve to income statement	-	-	4	-	-	4	-	4
Net investments in foreign operations								
Foreign currency effects	-	-	-	(17)	-	(17)	-	(17)
Deferred taxes	-	-	-	5	-	5	-	5
Net income/(expense) recognized directly in equity	-	-	4	(12)	(16)	(24)	(112)	(136)
Total recognized net income/(expense) for the period	-	(70)	4	(12)	(16)	(94)	(105)	(199)
Capital repayments and distributions	-	(2)	-	-	-	(2)	-	(2)
Balance at December 31, 2008	205	(884)	(1)	(12)	(120)	(812)	1	(811)

Cognis Consolidated Cash Flow Statement

€ millions	2008	2007	Note
Operating profit (EBIT) of continuing operations	192	186	
Operating profit (EBIT) of discontinued operations	12	(1)	
Income taxes paid	(32)	(31)	
Depreciation/(write-ups) of fixed assets	146	175	
Net (gains)/losses from disposals of fixed assets and divestments	–	(6)	
Cash earnings	318	323	
Change in inventories	(9)	(48)	
Change in receivables and other assets	12	(50)	
Change in liabilities and provisions	(57)	20	
Cash flows from operating activities	264	245	
(including cash flows from discontinued operating activities)	36	12	
Capital expenditure on intangible assets	(20)	(16)	
Capital expenditure on property, plant and equipment	(91)	(116)	
Acquisitions	(4)	(1)	(25)
Divestments and disposals of fixed assets	132	12	(26)
Cash flows from investing activities	17	(121)	
(including cash flows from discontinued investing activities)	(22)	(32)	
Capital contributions	–	–	
Capital repayments and distributions	(2)	(358)	(27)
Pension payments net of service costs	(19)	(26)	(28)
Draw-down/(repayment) of borrowings	11	396	
Interest and dividends received	4	8	
Interest paid and other financial charges	(126)	(245)	
Cash flows from financing activities	(132)	(225)	
(including cash flows from discontinued financing activities)	15	3	
Net cash flows	149	(101)	
Cash disposed with discontinued operations	(52)	–	
Foreign exchange effect	(3)	–	
Change in cash and cash equivalents	94	(101)	
Cash and cash equivalents at beginning of period	132	233	
Cash and cash equivalents at end of period	226	132	
(including cash and cash equivalents held in discontinued operations)	–	22	

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. We analyze our performance on the basis of a divisional structure comprised of the three Core Strategic Business Units: Care Chemicals, Nutrition & Health and Functional Products. The three Core Strategic Business Units together with Other Activities are defined as "Continuing Operations" or "Core Group" accordant to IFRS 5. Our former sub-groups Oleochemicals and Pulcra Chemicals as well as the divestment of our 50-percent-stake in the Thai Fatty Alcohols Company Ltd. (TFA) joint venture are defined as "Discontinued Operations" accordant to IFRS 5.

Continuing Operations

- The Care Chemicals SBU is a leading global producer of specialty ingredients, surfactants and natural fatty alcohols for manufacturers of hair, skin and body care products, as well as for makers of household and industrial detergents and cleaners
- The Nutrition & Health SBU is a leading supplier of emulsifiers, whisking and whipping agents, enzymes, fats and powders into the various sales channels of the nutrition business. Nutrition & Health also produces and markets phytosterols, conjugated linoleic acids (CLA), vitamin E and other natural-source products such as carotenoids and plant extracts. In addition, Nutrition & Health produces and sells a wide range of excipients and carriers based on natural raw materials for the pharmaceutical and life-science industries
- The Functional Products SBU provides chemical products and solutions designed to enhance the performance and cost efficiency of its customers' products and formulations. The products and technical expertise of Functional Products are used by customers across the polymers, coatings and inks, lubricants, agriculture and mining industries

Other Activities includes intra-Group transfers of goods and services, as well as contract (toll) manufacturing and other secondary activities.

Discontinued Operations

On July 23, 2008, we signed an agreement to sell our 50-percent-stake in the Oleochemicals joint venture to PTT Chemical International Private Ltd. The closing of the transaction took place on November 24, 2008 after relevant regulatory approvals had been obtained.

On July 14, 2008 we signed an agreement to sell our Pulcra Chemicals subsidiary to Fashion Chemicals GmbH & Co. KG. The closing of the transaction took place on October 31, 2008 after relevant regulatory approvals had been obtained.

On November 14, 2008 we sold our 50-percent-stake in the Thai Fatty Alcohols Company Ltd. (TFA) joint venture to Thai

Oleochemicals Company Ltd., a subsidiary of PTT Chemicals Public Company Limited.

In accordance with IFRS 5, the results of Oleochemicals, Pulcra Chemicals and TFA have been included in the consolidated income statement and cash flow statement under the section "Discontinued Operations". Prior years have been restated to present the result of "Discontinued Operations" as separate line items. Consolidated balance sheet presentations are shown as reported in prior years.

- Oleochemicals produced a comprehensive range of chemical intermediates (such as fatty acids and glycerin) mainly from renewable raw materials, in particular natural oils and fats
- Pulcra Chemicals manufactured a wide range of chemicals for the fiber, textile and leather industries. The unit offered high-performance process auxiliaries and system solutions for spinners, weavers and leather goods manufacturers, by focusing on production and processing techniques that improved efficiency and reduced costs for the customer

Transfers within the Group

For supplies within the Cognis Core businesses and within the former sub-groups Oleochemicals and Pulcra Chemicals, the transfer prices are calculated based on standard manufacturing costs plus a surcharge rate for the transaction of internal deliveries and a mark-up in keeping with arms-length principles. Supplies between Cognis and the former sub-groups are transacted on the basis of individual supply and distribution agreements.

Allocation of segment revenues, expenses, assets and liabilities

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.

Adjustments due to business with discontinued operations in accordance with IFRS 5

With the sale of the former sub-groups, certain former intra-Group transactions had to be restated as third party transactions for all reporting periods presented. These include the following activities:

- Material supplies from Cognis to Oleochemicals and Pulcra Chemicals
- Distribution and agency business by Cognis for Oleochemicals and for Pulcra Chemicals
- Term sheet services (e.g. for accounting, tax, legal and infrastructure support) from Cognis to Oleochemicals and to Pulcra Chemicals
- Sale and transfer of finished goods and merchandise as well as tolling from Cognis to Oleochemicals

Primary Segments (Segments by Business Unit)									
€ millions	Care Chemicals	Nutrition & Health	Functional Products	Other Activities Continuing	Total Continuing Operations	Pulcra Chemicals	Oleo-chemicals	Other Activities Discontinued	Total Discontinued Operations
Net sales 2008	1,684	346	948	23	3,001	190	734	3	927
Change from previous year ³⁾	% 7.1	4.4	4.4	-27.3	5.5	n/a	n/a	n/a	n/a
2007 as restated	1,572	332	908	32	2,844	245	729	-	974
Operating profit (EBIT) 2008	113	42	50	(13)	192	(4)	17	(1)	12
Change from previous year ³⁾	% -10.5	-0.4	-0.1	-59.9	3.3	n/a	n/a	n/a	n/a
Return on sales	% 6.7	12.0	5.3	-57.1	6.4	-2.2	2.3	-34.7	1.3
2007 as restated	126	42	51	(33)	186	(15)	14	-	(1)
Return on sales	% 8.0	12.6	5.6	-103.7	6.6	-6.3	2.0	-	-0.1
Depreciation, amortization, impairment charges and reversals thereof 2008⁴⁾	74	20	35	7	136	-	10	-	10
of which impairment losses and reversals thereof	4	6	-	1	11	-	-	-	-
2007 as restated	75	20	36	6	137	17	21	-	38
of which impairment losses and reversals thereof	1	5	3	1	10	13	-	-	13
Capital expenditure¹⁾									
2008 ⁵⁾	59	15	25	-	99	-	21	1	22
2007 as restated	57	19	25	-	101	1	25	5	31
Research and development costs 2008²⁾	50	8	23	4	85	2	2	-	4
As a percentage of sales	% 3.0	2.4	2.4	16.3	2.8	1.2	0.3	-	0.5
2007 as restated ²⁾	51	8	20	2	81	7	3	-	10
As a percentage of sales	% 3.2	2.5	2.2	7.4	2.9	2.5	0.4	-	1.0

¹⁾ Excluding investments in financial assets and acquisitions

²⁾ Including the amortization of step-up on patents and other intangible assets (see also Note 13)

Discontinued Operations:

³⁾ Changes from previous year of discontinued operations are not applicable because the Consolidated Income Statement 2008 does not include full 12 months of discontinued operations

⁴⁾ Scheduled amortization and depreciation have been stopped concurrent with the respective dates of classifications as held for sale (Oleochemicals and Pulcra Chemicals on June 30, 2008; Other Activities on September 30, 2008)

⁵⁾ CAPEX of discontinued operations also include additions of €10 million after the dates of classification as held for sale (Oleochemicals and Pulcra Chemicals on June 30, 2008; Other Activities on September 30, 2008); (not included in additions in movement table of fixed assets (Note 1 & 2); but included in cash flow statement)

€ millions	Care Chemicals	Nutrition & Health	Functional Products	Other Activities Continuing	Total Continuing Operations	Pulcra Chemicals	Oleo-chemicals	Other Activities Discontinued	Total Discontinued Operations
Net operating assets employed 2008									
Operating assets	954	250	505	44	1,753	-	-	-	-
Operating liabilities	304	52	139	28	523	-	-	-	-
Net operating assets employed	650	198	366	16	1,230	-	-	-	-
2007									
Operating assets	944	257	513	60	1,774	140	394	-	534
Operating liabilities	305	59	153	37	554	77	127	-	204
Net operating assets employed	639	198	360	23	1,220	63	267	-	330

Secondary Segments (Segments by Geographical Region)

€ millions		Germany	Rest of Europe	North America ²⁾	Central and South America ³⁾	Asia-Pacific	Africa	Total Continuing Operations
Net external sales by company jurisdiction 2008		1,003	800	590	197	408	3	3,001
Change from previous year	%	11.3	-3.7	3.1	20.9	9.2	-8.5	5.5
Proportion of total Group sales	%	33.3	26.7	19.7	6.6	13.6	0.1	100.0
2007 as restated		901	830	572	163	374	4	2,844
Proportion of total Group sales	%	31.8	29.2	20.1	5.7	13.1	0.1	100.0
Net external sales by destination 2008		569	1,103	579	227	488	35	3,001
Change from previous year	%	11.3	3.3	0.9	24.5	1.7	19.0	5.5
Proportion of total Group sales	%	18.8	36.8	19.3	7.6	16.3	1.2	100.0
2007 as restated		511	1,067	574	182	480	30	2,844
Proportion of total Group sales	%	18.0	37.5	20.2	6.4	16.9	1.0	100.0
By company jurisdiction:								
Capital expenditure¹⁾ 2008		52	25	15	3	4	-	99
2007 as restated		51	23	22	2	3	-	101

¹⁾ Excluding investments in financial assets and acquisitions

²⁾ Including Mexico

³⁾ Excluding Mexico

€ millions		Germany	Rest of Europe	North America ¹⁾	Central and South America ²⁾	Asia-Pacific	Africa	Total
Operating assets employed 2008		579	548	326	91	208	1	1,753
2007		599	799	420	104	385	1	2,308

¹⁾ Including Mexico

²⁾ Excluding Mexico

Segment Information—Reconciliation with Balance Sheet Figures

The reconciliation of the allocated net operating assets to consolidated assets and liabilities as of December 31, 2008 and 2007 is presented in the following table:

As of December 31, € millions	2008			2007		
	Segment operating assets	Non-operating portion/Consolidation	Balance sheet figures	Segment operating assets	Non-operating portion/Consolidation	Balance sheet figures
Intangible assets	192	–	192	250	–	250
Property, plant and equipment	577	–	577	719	–	719
Investments	–	5	5	–	2	2
Deferred income tax assets	–	187	187	–	194	194
Inventories	408	–	408	526	–	526
Trade receivables from third parties	423	–	423	566	–	566
Trade receivables from affiliated companies	107	(107)	–	195	(195)	–
Income tax refunds receivable	–	8	8	–	8	8
Derivative financial instruments	–	3	3	–	7	7
Other assets/Receivable from Cognis Holding GmbH	46	10	56	52	49	101
Cash and cash equivalents	–	226	226	–	132	132
Total assets	1,753	332	2,085	2,308	197	2,505
Trade payables to third parties	236	–	236	347	–	347
Trade payables to affiliated companies	107	(107)	–	195	(195)	–
Other provisions and liabilities	180	19	199	216	20	236
Derivative financial instruments	–	19	19	–	4	4
Provisions for pensions and similar obligations	–	405	405	–	435	435
Income tax provisions	–	5	5	–	6	6
Deferred income tax liabilities	–	16	16	–	20	20
Borrowings	–	2,016	2,016	–	2,067	2,067
Total provisions and liabilities	523	2,373	2,896	758	2,357	3,115
Net assets/Equity and minority interests	1,230	(2,041)	(811)	1,550	(2,160)	(610)

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, 2008, including those adopted by the European Union.

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

Certain reclassifications have been applied to the financial statement presentation of the prior period to conform such presentation to the current period presentation. In accordance with IFRS 5, the consolidated income statement presentations of prior years have been restated. Items resulting from transactions with the former sub-groups Oleochemicals and Pulcra Chemicals as well as TFA (in the following referred to as “Discontinued Operations”) have been treated as if incurred with third parties. Consolidated balance sheet presentations are shown as reported in prior years.

On February 18, 2009, the Management Board of Cognis GmbH approved the 2008 consolidated financial statements and agreed to distribute these to the shareholders.

Scope of Consolidation

Cognis GmbH is a wholly-owned subsidiary of Cognis Beteiligungs-GmbH whose sole shareholder is Cognis Holding GmbH. The ultimate parent is Cognis Holding Luxembourg S.à r.l. A total of 45 (2007: 68) legal entities are included in the 2008 consolidated financial statements.

Their regional distribution is as follows:

As of December 31,	2008	2007
North-West Europe, Africa	19	22
Southern Europe	7	10
North America ¹⁾	4	8
Central and South America ²⁾	4	6
Asia-Pacific	11	22
Total	45	68

¹⁾ Including Mexico

²⁾ Excluding Mexico

The sale of our former sub-group Oleochemicals comprised twelve companies, two in North-West Europe, seven in Asia-Pacific, two in North America and one in Central and South America.

The sale of our former sub-group Pulcra Chemicals comprised ten companies, one in North-West Europe, three in Southern Europe, three in Asia-Pacific, two in North America and one in Central and South America.

We likewise sold our 50-percent-stake in the Thai Fatty Alcohols Company Ltd. joint venture in Asia-Pacific.

Effects of acquisitions and divestments are further explained in Note 25 “Acquisitions” and Note 26 “Divestments and disposals of fixed assets”.

A list of the principal subsidiary companies is provided in Note 35 “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 entities of the Cognis Core Group are eliminated.

Increases in minority interests 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 euros 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:

€1.00 equals	ISO code	2008	2007	2008	2007
		Average rate		Closing rate	
British pound	GBP	0.7958	0.6842	0.9525	0.7334
Japanese yen	JPY	152.4858	161.2311	126.1400	164.9300
US dollar	USD	1.4706	1.3703	1.3917	1.4721
Malaysian ringgit	MYR	4.8885	4.7077	4.8048	4.8682

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. Goodwill is reviewed at least annually using an impairment test approach as required by IAS 36. Goodwill is thus carried at cost less accumulated impairment losses.

Goodwill is allocated to the cash-generating units. Each of our business segments, i.e. the three Core Strategic Business Units represent a cash-generating unit. Any gain or loss arising from the disposal of a subsidiary takes the 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). Emission rights are derecognized on disposal when their useful life expires or when the emission rights are sold. The expiry of emission rights is assumed when the emission rights must be surrendered to the government for the prior-year emission of carbon dioxide. If, at the balance sheet date, the obligation to surrender 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, workshop, 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 costs to sell versus 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 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). Each of the three Core Strategic Business Units has been defined as a cash-generating unit by Cognis’ management. The recoverable amounts of discontinued operations are determined based on fair values less costs to sell as expected by 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 if no impairment loss had 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.

Certain supply, maintenance, service and other long-term purchasing or selling contracts have been analyzed in order to identify embedded leases contained in these arrangements and classify 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.

Investments and other long-term non-derivative financial assets

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 Cognis retains neither control nor substantially all risks and rewards of the asset.

Management determines the appropriate classifications of investments and other financial assets at the time of purchase. 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.

Securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. As in 2007, Cognis held no investments classified as held to maturity during 2008.

Cognis has not yet made use of the option of designating financial assets upon initial recognition as financial assets at fair value through profit and loss.

Shares in companies held by the Group have been classified as available-for-sale 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 cannot 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).

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 estimated future cash flows.

Impairment losses on debt instruments are reversed 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 that would have been determined if no impairment loss had been recognized. Impairment losses on our equity instruments are not reversed.

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, but excludes borrowing costs. The allocation of overhead costs is based on normal capacity.

Trade accounts receivable and other receivables

For disclosure purposes of IFRS 7, trade accounts receivable are classified as loans and receivables. Trade accounts receivable and other receivables are measured 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 said 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, with the exception of deferred compensation trust funds (that fund employees' deferred compensation plans in the USA), which are stated at fair value.

Derivative financial instruments

The Group enters into various derivative financial instruments to manage its exposure to foreign exchange rate and interest rate risk.

Derivative financial instruments are initially recognized at cost. Subsequent to initial recognition, they are recognized at fair value.

Where a derivative financial instrument is designated as an effective cash flow hedging instrument, 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.

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

accounting is discontinued prospectively. Any cumulative gain or loss deferred in equity at that time is recognized only when the forecast transaction is ultimately recognized in income. If a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognized immediately in income.

Cash Flow hedges that do not comply with the documentation requirements for hedge accounting under IAS 39.88 are accounted for at their fair value with the changes in fair value directly affecting the income statement. Depending on the nature of the underlying hedged transactions, the changes in fair value are recorded in the same line of the income statement as the underlying transaction itself.

Derivatives not designated and effective as a hedging instrument are classified as held for trading and are therefore considered a current asset or current liability. The portion of a hedging derivative which is expected to be settled after more than 12 months is classified as a non-current asset or a non-current liability.

Cash and cash equivalents

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.

Assets classified as held for sale

Non-current assets as well as some groups of assets and liabilities known as disposal groups, are classified as assets held for sale when their carrying amounts will be recovered principally through sale. Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets classified as held for sale are not amortized or depreciated. An operation is classified as a discontinued operation when it is disposed of or it is classified as held for sale, whichever is earlier.

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 health-care 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 on an effective interest basis over the term of the borrowings. 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.

Cognis has not yet made use of the option of designating financial liabilities upon initial recognition as financial liabilities at fair value through profit and loss.

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 the 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, where 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 by Cognis over the goods sold is present, and provided that economic benefits of the transaction flow to the Cognis 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.

Fair value estimates

For current financial assets and liabilities (such as trade receivables or payables), the book values are assumed to approximate their fair values.

The fair values of Cognis' Senior Secured Floating Rate Loans and Notes and Senior Subordinated Notes are 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 the remaining financial instruments, other techniques, such as estimated discounted cash flows, are used to determine fair value.

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, litigation risks and contingencies.

Application of new International Financial Reporting Standards

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 did not 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 IFRSs 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 did not have any impact on the consolidated financial statements of the Group.

In July 2007, the IFRIC issued IFRIC 14 "IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction", which clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available, and provides guidance on the impact of minimum funding requirements on such assets. IFRIC 14 is effective for fiscal years beginning on or after January 1, 2008. This interpretation did not have any material impact on the consolidated financial statements of the Group.

In October 2008, the IFRIC issued amendments to "IAS 39 Financial Instruments: Recognition and measurement" and "IFRS 7 Financial Instruments: Disclosures", permitting an entity to reclassify particular financial assets in some circumstances. The amendments came into force on July 1, 2008 on. These amendments had no impact on the Group's condensed financial statements.

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, 2008, have not been applied in preparing the Group's consolidated financial statements.

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. There will be no modification of the structure of segments by business units, which is based on the Group's management and internal reporting structure. However, there will be some minor effects on disclosures regarding the segments by geographical region, as some disclosures are not further required.

In March 2007, the IASB revised IAS 23 "Borrowing Costs", which removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Revised IAS 23 is applicable to qualifying assets for which capitalization of borrowing costs commences on or after January 1, 2009. The potential effect can not be determined, since the amendment is valid for qualifying assets starting January 1, 2009.

In June 2007, the IFRIC issued IFRIC 13 "Customer Loyalty Programmes", which addresses how to account for incentive programs under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 is effective for fiscal years beginning on or after July 1, 2008. This interpretation is not expected to have any material impact on the consolidated financial statements of the Group.

In September 2007, the IASB revised IAS 1 "Presentation of Financial Statements", which requires the presentation of comprehensive income within a separate statement and gives guidance on presenting prior periods in the statement of financial position under certain circumstances. The amendments are effective for fiscal years beginning on or after January 1, 2009.

In January 2008, the IASB amended IFRS 2 "Share-based Payment" to clarify the definition of vesting conditions and the accounting treatment of cancellations by the counterparty to a share-based arrangement. IFRS 2 is effective for fiscal years beginning on or after January 1, 2009. This interpretation is expected to have no impact on the consolidated financial statements of the Group.

Also in January 2008, the IASB revised IFRS 3 "Business Combinations" and amended IAS 27 "Consolidated and Separate Financial Statements". These amendments are effective for fiscal years beginning on or after July 1, 2009. The potential effect can not be determined, since the amendment is valid for business combinations on or after July 1, 2009.

In February 2008, the IASB amended IAS 32 "Financial Instruments: Presentation" and amended IAS 1 "Presentation of Financial Statements". The amendments provide for equity treatment under certain circumstances for financial instruments puttable at fair value and obligations arising on liquidation only. These amendments are effective for fiscal years beginning on or after January 1, 2009. This interpretation is not expected to have any material impact on the consolidated financial statements of the Group.

In May 2008, the IASB amended IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements". The amendments give guidance on determining the cost of an investment in the separate financial statements of a parent. These amendments are effective for fiscal years beginning on or after January 1, 2009. The amendments will not have an impact on the Group's consolidated financial statements.

Also in May 2008, the IASB issued "Improvements to IFRS", a collection of amendments to International Financial Reporting Standards. Unless otherwise specified, the amendments are effective for annual periods beginning on or after January 1, 2009. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

In July 2008, the IASB issued IFRIC 15 "Agreements for the Construction of Real Estate", which deals with accounting rules of real estate entities. IFRIC 15 is effective for fiscal years beginning on or after January 1, 2009. This interpretation will not have an impact on the Group's consolidated financial statements.

Also in July 2008, the IASB issued IFRIC 16 "Hedges of a Net Investment in a Foreign Operation", which addresses how to account for foreign currency hedges (hedge accounting) of a net investment in a foreign operation. IFRIC 16 is effective for fiscal years beginning on or after October 1, 2008. This interpretation is not expected to have any material impact on the consolidated financial statements of the Group.

In November 2008, the IASB issued IFRIC 17 "Distribution of Non-Cash Assets to Owners", which addresses how to measure and account for distributions of assets other than cash dividends paid to owners. IFRIC 17 is effective for fiscal years beginning on or after January 1, 2009. This interpretation is not expected to have any material 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: At January 1, 2007	155	387	21	5	568
Changes in the Group	–	1	–	–	1
Additions	–	4	8	4	16
Disposals	–	(12)	–	(1)	(13)
Translation differences	(3)	(1)	–	–	(4)
At December 31, 2007	152	379	29	8	568
Accumulated amortization: At January 1, 2007	8	268	5	1	282
Amortization	–	43	4	–	47
Impairment losses	–	4	–	–	4
Disposals	–	(12)	–	(1)	(13)
Translation differences	(2)	–	–	–	(2)
At December 31, 2007	6	303	9	–	318
Net book value: At December 31, 2007	146	76	20	8	250
Cost: At January 1, 2008	152	379	29	8	568
Classification as held for sale	(9)	(86)	(3)	(1)	(99)
Additions	–	6	5	9	20
Disposals	–	–	(1)	–	(1)
Reclassifications	–	3	5	(8)	–
Translation differences	(25)	–	–	–	(25)
At December 31, 2008	118	302	35	8	463
Accumulated amortization: At January 1, 2008	6	303	9	–	318
Classification as held for sale	(9)	(81)	(2)	–	(92)
Amortization	–	39	4	–	43
Impairment losses	3	–	–	–	3
Disposals	–	–	(1)	–	(1)
Translation differences	–	–	–	–	–
At December 31, 2008	–	261	10	–	271
Net book value: At December 31, 2008	118	41	25	8	192

Goodwill is allocated to the Group's SBUs and other units as follows:

€ millions	As of December 31,	2008	2007
Care Chemicals		57	64
Nutrition & Health		17	26
Functional Products		44	56
Group		118	146

€10 million (2007: €8 million) of the Group's €61 million (2007: €56 million) research and development expenditure (excluding capitalized development costs and amortization of previously capitalized development costs and patents) was capitalized in 2008.

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 losses on goodwill of €3 million (2007: nil) were recognized in 2008 in accordance with IFRS 5 due to the write-down to fair value less cost to sell and were shown in "Other operating expenses".

Write-downs of other intangible assets were nil in 2008 (2007: nil) concerning the Core SBUs. The impairment loss of €4 million on other intangible assets in the movement table of fixed assets in 2007 was connected to our former sub-groups. It comprised the write-down to fair value less cost to sell.

There were no reversals of impairment losses on intangible assets in 2008 or 2007.

In 2008, classifications as held for sale comprise the intangible assets of our former sub-groups Oleochemicals and Pulcra Chemicals as at first application of IFRS 5 (June 30, 2008). The net book value of €7 million classified as held for sale, is composed of €8 million net book value at the beginning of the financial year 2008 as well as €1 million additions and €2 million amortization till classification as held for sale.

Impairment test according to IAS 36

The recoverable amount of goodwill, intangible assets and property, plant and equipment in each Core Strategic Business Unit was determined by the present value of estimated future cash flows generated by its use. The estimate future cash flow is based on projected 2009 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 2009. To arrive at the recoverable amounts of the three Strategic Business Units, pre-tax capital costs ranging between approximately 13% and 18% (2007: 10% to 14%) were applied for each cash-generating unit.

In 2007, the recoverable amount of our former sub-groups has been determined based on fair values less cost to sell as expected by management.

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.

If projected operating profits excluding depreciation, amortization and restructuring charges and exceptional items for the Strategic Business Units had been 30% lower, an additional impairment charge of €8 million would have been required on other intangible and tangible assets. If the cost of capital had been ten percentage points higher than assumed, impairment charges on other intangible and tangible assets would have been €53 million higher.

(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
Cost: At January 1, 2007	577	22	1,931	40
Additions	8	–	33	1
Disposals	(6)	–	(23)	(3)
Reclassifications	5	–	37	(19)
Translation differences	(17)	–	(59)	–
At December 31, 2007	567	22	1,919	19
Accumulated depreciation: At January 1, 2007	309	9	1,515	19
Depreciation	17	1	78	3
Impairment losses	4	–	12	–
Disposals	(2)	–	(22)	(3)
Reclassifications	–	–	–	(13)
Translation differences	(10)	–	(48)	–
At December 31, 2007	318	10	1,535	6
Net book value: At December 31, 2007	249	12	384	13
Cost: At January 1, 2008	567	22	1,919	19
Classification as held for sale	(98)	–	(454)	–
Additions	14	10	28	–
Disposals	(3)	–	(34)	–
Reclassifications	10	–	32	–
Translation differences	(5)	–	(33)	–
At December 31, 2008	485	32	1,458	19
Accumulated depreciation: At January 1, 2008	318	10	1,535	6
Classification as held for sale	(71)	–	(385)	–
Depreciation	17	1	66	7
Impairment losses	–	–	8	–
Disposals	(3)	–	(34)	–
Reclassifications	–	–	–	–
Translation differences	(3)	–	(28)	–
At December 31, 2008	258	11	1,162	13
Net book value: At December 31, 2008	227	21	296	6

Factory and office equipment	thereof finance leases	Prepayments and assets under construction	Total
168	3	47	2,723
8	3	67	116
(15)	–	–	(44)
3	–	(45)	–
(3)	–	(3)	(82)
161	6	66	2,713
145	2	–	1,969
10	1	–	105
2	–	1	19
(14)	–	–	(38)
–	–	–	–
(3)	–	–	(61)
140	3	1	1,994
21	3	65	719
161	6	66	2,713
(22)	–	(26)	(600)
8	4	41	91
(14)	(3)	–	(51)
3	–	(45)	–
(2)	–	(1)	(41)
134	7	35	2,112
140	3	1	1,994
(20)	–	–	(476)
9	2	–	92
–	–	–	8
(13)	(3)	–	(50)
–	–	–	–
(2)	–	–	(33)
114	2	1	1,535
20	5	34	577

Impairment losses and reversals of impairment losses

In 2008, impairment losses of €8 million on tangible assets were recognized in other operating expenses (€3 million) and restructuring expenses (€5 million). Write-downs of €7 million were made due to temporary shut downs of plants and machineries as well as other restructuring initiatives. Additionally impairment losses of €1 million were recognized in accordance with IFRS 5 due to the write-down to fair value less costs to sell.

In 2007, concerning the Core SBUs, impairment losses of €10 million on tangible assets were recognized in other operating expenses (€1 million) and restructuring expenses (€9 million). The write-downs in 2007 were made in connection with site closures and relocations relating to restructuring initiatives.

In 2007, the residual write-down on property, plant and equipment of €9 million shown in the movement table of fixed assets was connected to our former sub-groups. It comprises the write-down to fair value less costs to sell and was made based on strategic considerations and an assessment of the existing uncertainties in the financial markets.

There were no reversals of impairment losses in 2008 or 2007. The methods used and results of the impairment test are described in Note 1 “Intangible assets”.

Classification as held for sale

In 2008, classifications as held for sale comprise the property, plant and equipment of our former sub-groups at first application of IFRS 5 (Pulcra Chemicals and Oleochemicals as of June 30, 2008; TFA as of September 30, 2008). The net book value of €124 million classified as held for sale, is composed of €127 million net book value at the beginning of the financial year 2008 as well as €11 million additions, €1 million disposal, €8 million depreciation and –€5 million currency differences till classification as held for sale.

Finance lease agreements

In 2008, Cognis entered into a finance lease arrangement in the course of logistic reorganizations (€10 million). The associated finance leases for warehouses comprise leases to 2017.

In 2007, Cognis exercised a purchase option with respect to one of our leased technical facilities.

In 2007, Cognis entered into finance lease agreements for computer equipment with leasing fees relating to contract durations between 36 and 48 months. Additions at cost of €4 million and disposals at cost of €3 million in 2008 relate to these finance lease agreements.

(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: At January 1, 2007	3	2	5
Additions	-	-	-
Translation differences	-	-	-
At December 31, 2007	3	2	5
Accumulated amortization: At January 1, 2007	3	-	3
Impairment losses	-	-	-
Translation differences	-	-	-
At December 31, 2007	3	-	3
Net book value: At December 31, 2007	-	2	2
Cost: At January 1, 2008	3	2	5
Classification as held for sale	-	(1)	(1)
Additions	-	4	4
At December 31, 2008	3	5	8
Accumulated amortization: At January 1, 2008	3	-	3
Impairment losses	-	-	-
Translation differences	-	-	-
At December 31, 2008	3	-	3
Net book value: At December 31, 2008	-	5	5

The above-mentioned investments are generally accounted for at market price. If a market price is not available and other valuation techniques, such as discounting expected cash flows, are also not applied because the cash flows could not be reliably determined, the investments are measured at cost.

As of December 31, 2008, no decision has been taken to dispose of the above-mentioned investments.

Additions to other investments in 2008 relate to an investment in the natural product specialist InterMed Discovery GmbH,

Germany (€3 million) as well as an investment in PIK Loans (Payment-In-Kind) due from Cognis Holding GmbH purchased in an open-market transaction.

There were no impairment losses relating to investments in affiliates and other investments in 2008 or 2007.

In 2008, classifications as held for sale comprise the other investments of our former sub-group Oleochemicals as of June 30, 2008 (which already existed as at January 1, 2008).

(4) Inventories

Inventories are comprised as follows:

€ millions	As of December 31,	2008	2007
Raw materials and supplies		129	168
Work in process		89	120
Finished goods and merchandise		189	236
Payments on account		1	2
Total		408	526

Valuation allowances amounting to €10 million have been recorded as of December 31, 2008 (2007: €16 million). In 2007 €9 million of the valuation allowance related to discontinued operations, thereof €5 million due to a write-off to fair value less costs to sell.

(5) Trade receivables

As in 2007, all trade receivables as of December 31, 2008, are due within one year.

The fair value of trade receivables approximates their net book value.

The maximum exposure to credit risk at the reporting date is the book value of the trade receivables.

Valuation allowances are recorded for trade receivables if there are circumstances which indicate impairment, such as deterioration in the creditworthiness of a debtor. Also, overdue reports are used for determining individual valuation allowances. For trade receivables for which no specific valuation allowances have been recorded, a global valuation allowance account is set up, calculated on the basis of past experience.

The aging analysis of Cognis' trade receivables is as follows:

€ millions	As of December 31,	2008	2007
Neither due nor impaired		369	481
Overdue but not impaired			
less than 31 days		41	66
31 to 60 days		8	13
61 to 90 days		5	4
Impaired (both due and not overdue)		12	13
Total		435	577

Movements in the allowance for doubtful debts

Doubtful accounts are recognized at their probable collectible amount by considering all known risks and circumstances indicating impairment, such as an alteration of creditworthiness, default or delinquency. Impairments of accounts receivable are usually covered by global valuation allowances calculated on the basis of past experience as well as by itemized valuation allowances.

The development of the valuation allowance for trade receivables is shown in the following table:

€ millions	As of December 31,	2008	2007
As of January 1		11	16
Divestment		(1)	–
Additions		4	3
Utilization		(1)	(7)
Unused amounts released		(1)	(1)
As of December 31		12	11

If amounts are considered to be uncollectible, the associated receivables are not impaired using a valuation allowance account, but directly written off. Expenses for the full write-off of receivables were nil in 2008 (2007: €1 million). Income from recoveries on receivables previously written off was nil in 2008 (2007: nil). The creation and release of valuation allowances for impaired trade receivables as well as direct write-offs and gains on bad debt paid are reflected in "Marketing, selling and distribution expenses".

(6) Receivable from Cognis Holding GmbH/Other assets

The receivable from Cognis Holding GmbH related to withholding tax paid by Cognis GmbH on behalf of Cognis Holding GmbH in connection with the Refinancing Transaction in 2007. This amount was refunded by the tax authorities in 2008, upon which Cognis Holding GmbH repaid Cognis GmbH in full.

Other assets are comprised as follows:

€ millions	As of December 31,	2008	2007
Other tax refunds receivable		23	30
Prepaid expenses		6	5
Accounts receivable from suppliers		5	2
Deferred compensation trust fund assets		3	5
Accounts receivable from employees		3	4
Insurance receivables/deposits		2	4
Deposits		2	3
Prepayments made		1	2
Other assets		11	14
Total		56	69
of which current		44	50
of which non-current		12	19

Other assets include reimbursement claims of €3 million (2007: €3 million) relating to certain environmental costs and assets held for sale of €1 million (2007: nil).

Assets which are not due within one year relate primarily to portions of deferred compensation trust fund assets, receivables from suppliers, receivables from employees, securities held on deposit and other assets.

Of the assets above, €19 million (2007: €53 million) are considered financial assets within the scope of IFRS 7. For these financial assets, fair value approximates book value. The fair values of the above non-current financial assets are based on cash flows discounted using a rate based on the borrowings rate of 7.4% (2007: 8.0%). The financial assets were neither overdue nor impaired in 2008 and 2007. There were no valuation allowances on such assets in 2008 and 2007.

(7) Cash and cash equivalents

As of December 31, 2008, cash and cash equivalents of €174 million secured Senior Secured Debt (2007: €71 million).

Cash and cash equivalents at the end of the period included liquid funds of €17 million (2007: €13 million) held by subsidiaries in China which are not freely remissible to the holding company because of legal restrictions.

The carrying amount of cash and cash equivalents approximates its fair value.

(8) Equity

Share capital and capital reserves

The share capital of Cognis GmbH, Monheim, Germany, consists of one share of €25 thousand owned by Cognis Beteiligungs-GmbH; capital reserves amount to €205 million.

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.

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.

IAS 21 reserve

The IAS 21 reserve comprises currency differences arising from monetary items that in substance form part of the net investment in a foreign operation.

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, Sime Darby Plantation Sdn. Bhd. (until 2006: 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 remained a 50:50 joint venture of Cognis and Sime Darby Plantation Sdn. Bhd., and, since Cognis retained management control, remained fully consolidated in Cognis' accounts. The transaction impacted Cognis' financial statements by an increase of €40 million in both Cognis' consolidated minority's share of equity, representing the cash contribution of Sime Darby Plantation Sdn. Bhd. in Cognis' consolidated business, and by a dilution result of €16 million which was recognized directly in equity.

In February 2007, an additional purchase price of €8 million was paid to Cognis on the basis of a settlement agreement and the fulfillment of certain conditions as laid down in the share purchase agreement. In line with the accounting of 2006, a dilution result of €4 million was recognized directly in equity.

On July 23, 2008, we signed an agreement to sell our residual 50-percent-stake in the Oleochemicals joint venture to PTT Chemical International Private Ltd. The closing of the transaction took place on November 24, 2008 after relevant regulatory approvals had been obtained.

On July 14, 2008 we signed an agreement to sell our Pulcra Chemicals subsidiary to Fashion Chemicals GmbH & Co. KG. The closing of the transaction took place on October 31, 2008 after relevant regulatory approvals had been obtained.

Due to the divestments of Oleochemicals and Pulcra Chemicals minority interests of €116 million have been derecognized in 2008.

Capital management policy

The Group's financing structure shows a negative equity of €811 million, nominal borrowings of €2,063 million and pension obligations of €489 million.

Our capital management policy is to ensure at any time that the market value of our equity is higher than our nominal borrowings (net of liquid funds) and pension obligations. The target is to achieve a ratio of implied equity (at market values) to entity value (at market values) of 20% to 25% (prior year 30% to 35%). This target has been updated to reflect current capital market conditions.

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

In 2008, provisions developed as follows:

€ millions	January 1, 2008							December 31, 2008	December 31, 2007
		Utilized ¹⁾	Released ²⁾	Added ³⁾	Added interest ⁴⁾	Translation differences	Classified as held for sale	Total	Total
Provisions for pensions and similar obligations	435	(32)	–	13	22	2	(35)	405	435
Provisions for income taxes	6	(6)	–	11	–	(1)	(5)	5	6
Sundry provisions	177	(109)	(14)	113	–	–	(19)	148	177
Total	618	(147)	(14)	137	22	1	(59)	558	618

Thereof discontinued operations as of June 30, 2008:

¹⁾ Provisions for pensions and similar obligations: –€3 million; Provisions for income taxes: nil; Sundry provisions –€12 million

²⁾ Provisions for pensions and similar obligations: nil; Provisions for income taxes: nil; Sundry provisions: –€1 million

³⁾ Provisions for pensions and similar obligations: €1 million; Provisions for income taxes: €3 million; Sundry provisions: €16 million

⁴⁾ Provisions for pensions and similar obligations: €1 million; Provisions for income taxes: nil; Sundry provisions: nil

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 plans and defined contribution plans throughout the world, as well as 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.

Provisions for pensions and similar obligations consist of:

€ millions	As of December 31, 2008			
	Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations	345	51	5	401
Present value of funded defined benefit obligations	–	195	67	262
Fair value of plan assets	–	(120)	(54)	(174)
	345	126	18	489
Unrecognized actuarial (losses)/gains	(4)	(85)	(6)	(95)
Unrecognized past service (costs)/gains	–	11	–	11
Provisions for pensions and similar obligations—continuing operations	341	52	12	405
Provisions for pensions and similar obligations—discontinued operations	–	–	–	–
Provisions for pensions and similar obligations	341	52	12	405

€ millions	As of December 31, 2007			
	Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations	361	52	5	418
Present value of funded defined benefit obligations	–	186	87	273
Fair value of plan assets		(174)	(78)	(252)
	361	64	14	439
Unrecognized actuarial (losses)/gains	(28)	(26)	2	(52)
Unrecognized past service (costs)/gains	–	12	–	12
Provisions for pensions and similar obligations—continuing operations	333	50	16	399
Provisions for pensions and similar obligations—discontinued operations ¹⁾	30	7	(1)	36
Provisions for pensions and similar obligations	363	57	15	435

¹⁾ Defined benefit obligation amounted to €60 million, plan assets to –€22 million and unrecognized actuarial losses to –€2 million

Movement in the liability for defined benefit obligations

€ millions	2008	2007
Liability for defined benefit obligations at January 1	751	836
thereof discontinued operations	60	66
Continuing operations		
Total benefits paid to beneficiaries ¹⁾	(38)	(42)
Current service cost	13	14
Interest expense	38	38
Plan amendments	–	4
Actuarial (gains)/losses	(43)	(61)
Foreign exchange differences	3	(32)
Discontinued operations²⁾	(61)	(6)
Liability for defined benefit obligations at December 31³⁾	663	751

¹⁾ Sum of benefits paid by pension plan and benefits paid by the Group

²⁾ Including divestments in 2008

³⁾ Group defined benefit obligations including discontinued operations in 2007

Movement in plan assets

€ millions	2008	2007
Fair value of plan assets at January 1	274	281
thereof discontinued operations	22	21
Continuing operations		
Contributions paid into the plan	3	10
Benefits paid by the plan	(12)	(16)
Expected return on plan assets	19	20
Actuarial (losses)/gains	(85)	1
Foreign exchange differences	(3)	(23)
Discontinued operations¹⁾	(22)	1
Fair value of plan assets at December 31	174	274
Actual return on plan assets	(66)	21

¹⁾ Including divestments in 2008

Plan assets consist of the following:

%	As of December 31,	2008	2007
Equity securities		59.8	67.3
Debt securities		32.2	28.8
Real estate		0.6	0.1
Other		7.4	3.8
Total		100.0	100.0

Expenses recognized in profit or loss

Costs of defined benefit pensions and similar obligations comprise as follows:

€ millions	2008	2007
Current service cost	13	14
Operating actuarial losses	2	1
Pension costs	15	15
Other costs for obligations similar to pensions	(3)	(3)
Pension costs included in EBIT	12	12
Interest expense	38	38
Expected return on plan assets	(19)	(20)
Financial actuarial losses	2	4
Net pension costs included in net financial result	21	22
Total cost of pensions and similar obligations continuing operations	33	34
Pension costs of discontinued operations	4	3
Total cost of pensions and similar obligations	37	37

Pension costs of €12 million (2007: €12 million) are included in operating profit (EBIT).

The financial charges, i.e. interest expense net of the expected return on plan assets, as well as related financial actuarial gains and losses, are recognized in net financial result (see Note 18 "Net financial result"). In 2008, €2 million of actuarial losses, primarily resulting from the amortization of historical actuarial losses, were included in net financing costs on this basis (2007: €4 million).

Expenses for defined contribution plans were €14 million in 2008 (2007: €14 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:

%	2008	2007	2008	2007
	Germany		USA	
Discount rate	6.1	5.4	6.4	6.0
Future salary increase (in the USA: including benefits increase)	2.5	2.5	4.5	4.5
Future benefits increase	1.0–1.75	1.0–1.5	–	–
Medical cost trend	–	–	8.5	9.0
Expected return on plan assets	–	–	8.25	8.5
Actual return on plan assets	–	–	-28.0	9.3

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 residual life expectancy of an individual retiring in Germany at age 65 is 19 for males, and 23 for females.

Around 70 percent of plan assets are in the USA. The overall expected long-term rate of return on plan assets in the USA is 8.25% (2007: 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 health-care cost trend rates have a material impact on the amounts recognized in the income statement. A one percentage point change in assumed health-care cost trend rates would have the following effects on the income statement and the pension obligations:

€ millions	2008		2007	
	Valuation trend +1%	Valuation trend -1%	Valuation trend +1%	Valuation trend -1%
Effect on total service and interest cost	–	–	–	–
Effect on defined benefit obligation	3	(3)	5	(5)

History of experience gains and losses:

€ millions	As of December 31,	2008	2007	2006	2005
Present value of defined benefit obligations		663	691	770	813
Fair value of plan assets		(174)	(252)	(260)	(255)
Funded status - continuing operations		489	439	510	558

Due to actuarial losses the value of plan assets decreased by 50% in 2008. These losses were influenced by the global financial crisis. Experience adjustments (i.e. the effects of differences between actuarial assumptions and what has actually occurred) were insignificant. As such, no difference arises on the defined benefit obligation as actuarial assumptions roughly equaled actual experience.

In 2007, the overall actual return on plan assets was in line with the expected return for the Group in total. Due to experience

adjustments (i.e. the effects of differences between actuarial assumptions and what has actually occurred), the defined benefit obligation at the balance sheet date is 3% higher than it would have been if the actual experience had equaled the actuarial assumptions.

The Group expects to pay around €48 million in direct pension payments and contributions to plan assets in 2009.

Sundry provisions

Sundry provisions developed as follows:

€ millions	January 1, 2008						December 31, 2008	2007
		Utilized	Released	Added	Translation differences	Classified as held for sale	Total	Total
Restructuring costs	42	(18)	(1)	16	–	(3)	36	42
Employee bonuses	40	(38)	(1)	35	–	(5)	31	40
Commissions and bonuses	16	(14)	(2)	15	–	(4)	11	16
Environmental protection measures	11	(2)	–	–	1	–	10	11
Employment anniversary bonuses	10	–	–	–	–	(1)	9	10
Employee vacation claims	8	(8)	–	8	–	(1)	7	8
Provisions for other taxes	3	–	–	–	–	–	3	3
Other	47	(29)	(10)	39	(1)	(5)	41	47
Total	177	(109)	(14)	113	–	(19)	148	177

As of December 31, 2008, sundry provisions totaling €36 million were due after more than one year (2007: €39 million). Included in "other" are provisions for onerous contracts amounting to €6 million (2007: €7 million).

The expected cash outflows for sundry provisions are as follows:

€ millions	As of December 31,	2008	2007
Expected cash outflows			
– of which due in the following year		108	138
– in the 2nd year		12	13
– in the 3rd year		9	8
– in the 4th year		5	4
– in the 5th year		3	3
– in the 6th year or later		11	11
Total		148	177

(10) Borrowings

Borrowings comprise the interest-bearing obligations of the Cognis Group outstanding at December 31, 2008.

The Group's borrowings are comprised as follows:

€ millions	Accrued interest	Maturity of borrowings						Total principal	Outstanding as of	
		< 1	1 to 2	2 to 3	3 to 4	4 to 5	> 5		Dec. 31, 2008	Dec. 31, 2007
Senior Secured Floating Rate Notes	2	–	–	–	–	821	–	821	823	812
Senior Secured Floating Rate Loans	2	–	–	–	–	821	–	821	823	811
Senior Subordinated Notes	4	–	–	–	–	–	345	345	349	349
Other loans and bank overdrafts	–	29	2	–	–	–	–	31	31	119
Finance lease liabilities	–	6	5	3	3	4	16	37	37	30
Total nominal borrowings 2008	8	35	7	3	3	1,646	361	2,055	2,063	2,121
Less: Deferred financing fees	–	(8)	(9)	(9)	(10)	(9)	(2)	(47)	(47)	(54)
Borrowings 2008	8	27	(2)	(6)	(7)	1,637	359	2,008	2,016	2,067
Total nominal borrowings 2007	10	70	7	4	46	3	1,981	2,111		2,121
Less: Deferred financing fees	–	(7)	(8)	(9)	(9)	(10)	(11)	(54)		(54)
Borrowings 2007	10	63	(1)	(5)	37	(7)	1,970	2,057		2,067

Senior Secured Floating Rate Loans and Notes (Senior Secured Debt)

On May 16, 2007, Cognis GmbH issued €1,653 million of Senior Secured Floating Rate Notes and Loans due September 15, 2013 at principal value (Senior Secured Floating Rate Notes of €610 million and US\$ 293 million, and Senior Secured Floating Rate Loans of €610 million and US\$ 293 million). The outstanding amounts have to be repaid in full on maturity. In general, Cognis may repay the Loans and Notes after November 15, 2008 (at par). The Senior Secured Debt is not subject to any amortization.

Currently, the US dollar loans and notes bear interest of 3-month US-Libor plus 2.00%, and the euro loans and notes bear interest of 3-month Euribor plus 2.00%. Interest periods are quarterly, with the reset dates being mid of March, June, September and December for the Senior Secured Floating Rate Notes and the Senior Secured Floating Rate Loans. On December 31, 2008, the US dollar loans and notes bore interest of 4.00% and the euro loans and notes 5.33%, giving an overall average interest rate of 4.99%. Including the amortization of financing fees, the Senior Secured Debt bears an effective interest rate of 5.23%.

The Senior Secured Floating Rate Notes are listed on the Luxembourg Stock Exchange.

Senior Subordinated Notes

In May 2004, Cognis GmbH issued €345 million Senior Subordinated 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 Subordinated Notes bear interest of 9.50%, payable semi-annually on May 15 and November 15. Including the amortization of financing fees, the Senior Subordinated Notes bore effective interest of 10.30%. The original indenture agreement was amended by a supplemental indenture agreement dated May 1, 2007.

The Senior Subordinated Notes are also listed on the Luxembourg Stock Exchange.

Available Revolving Credit Facilities

On May 16, 2007, Cognis GmbH entered into a new Revolving Credit Facility of up to €250 million with a maturity until May 13, 2013. Interest on amounts drawn under the Revolving Credit Facility accrue at applicable Euribor (or applicable Libor), plus a margin. Undrawn amounts are subject to a commitment fee. This revolving credit facility was not drawn as per December 31, 2008, but €29 million (2007: €30 million) was reserved for stand-by letter of credits and ancillary facilities.

Previous financing structure

• Senior Loans

Cognis used a portion of the proceeds from the Senior Secured Debt to repay all amounts outstanding under the Senior Facilities Agreement in May 2007, amounting to €887 million.

• Second Lien Loans and Notes

In 2004, Cognis Deutschland GmbH & Co. KG, a former subsidiary of Cognis GmbH which collapsed into Cognis GmbH in 2007, borrowed US\$ 125 million and €62 million in Second Lien Loans and issued €235 million of Second Lien Notes, due on November 15, 2013. In May 2007, Cognis repaid the Second Lien Loans (€154 million) and redeemed all Second Lien Notes (€235 million) with a portion of the proceeds from the Senior Secured Debt.

Security given

Cognis' obligations under the Senior Secured Debt are

- guaranteed (to the extent permitted by thin capitalization and other relevant laws in various jurisdictions) by certain subsidiaries of Cognis GmbH;
- secured by first-priority pledges of capital stock of certain companies, as well as of the shares in Cognis GmbH;
- secured (again to the extent permitted by thin capitalization and other relevant laws in various jurisdictions) by first-priority security interests in the fixed and current assets of Cognis GmbH and certain of our subsidiaries.

The Senior Secured Floating Rate Loans and the Senior Secured Floating Rate Notes will be entitled to share, on an equal ranking basis, in substantially the same security subject to different limitations required by applicable law. The Senior Secured Floating Rate Notes are senior obligations of Cognis GmbH and are senior in right of payment to all subordinated indebtedness of Cognis GmbH. They are subordinated on enforcement or insolvency to a compensation claim of Henkel with respect to our pension liability relating to former Henkel employees of an amount up to €150 million.

The Senior Subordinated Notes are senior secured obligations of Cognis GmbH and are contractually subordinated in right of payment to the obligations of Cognis GmbH under the Senior Secured Debt.

In addition to pledges of capital stock of certain companies and intra-Group receivables the following assets secure the Senior Secured Debt and the Revolving Credit Facility:

€ millions	As of December 31,	2008	2007
Property, plant and equipment		319	319
Inventories		244	234
Trade receivables		192	197
Cash and cash equivalents		174	71
Other assets		2	4
Total		931	825

The liens on the collateral are subject to certain limitations and are in all cases subject to the requirements of applicable law.

Included in "Other assets" are financial assets within the scope of IFRS 7 amounting to €2 million (2007: €4 million).

Covenants

The loan agreements and the notes indentures contain covenants that limit, among other things, the ability of Cognis GmbH and certain subsidiaries to

- incur additional indebtedness;
- make certain restricted payments;
- transfer or sell assets;
- enter into transactions with affiliates;
- create certain liens;
- create restrictions on the ability of certain subsidiaries to pay dividends or other payments;
- issue guarantees of indebtedness by certain subsidiaries;
- enter into sale and leaseback transactions;
- merge, consolidate, amalgamate or combine with other entities.

Each of the covenants is subject to a number of important exceptions and qualifications.

Throughout 2008, Cognis GmbH and Cognis Holding GmbH were fully compliant with the various financing agreements in place.

Events of default

The breach of any term of the loan agreement and notes indentures governing the Senior Secured Debt and Senior Subordinated Notes constitutes (after, in some cases, materiality thresholds and grace periods) an event of default under those agreements; a breach of the financial covenant under the Revolving Credit Facility likewise constitutes an event of default. Subject to certain limitations, the relevant notes, loans and undrawn facilities 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 Secured Debt and

Senior Subordinated 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

€ millions	As of December 31,	2008	2007
Senior Secured Floating Rate Notes		525	756
Senior Secured Floating Rate Loans		495	757
Senior Subordinated Notes		198	332
Finance lease liabilities		37	29
Other loans and bank overdrafts		31	118
Total borrowings		1,286	1,992

The fair values of Cognis' Senior Secured Floating Rate Loans and Notes and Senior Subordinated Notes were determined using the median of bid and ask prices at the balance sheet date 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.

The fair values of other loans and of finance lease liabilities are based on cash flows discounted using a rate based on the borrowings rate of 7.4% (2007: 8.0%).

The fair values of short-term borrowings and bank overdrafts approximate their carrying amount, as the impact of discounting is not significant.

Finance leases

The timing of Cognis' future finance lease payments is as follows:

€ millions	As of December 31,	2008	2007
Due up to 1 year		7	4
Due between 1 and 5 years		22	15
Due later than 5 years		18	17
Total minimum lease payments		47	36
Less: Interest component		(10)	(6)
Present value of finance lease liabilities		37	30

The interest rates implicit in the finance lease liabilities range from 4 to 8% (2007: 4 to 8%).

(11) Trade payables

Trade payables are due to third parties and are all due within one year from the balance sheet date. The fair value of trade payables approximates their book value.

(12) Other liabilities

Other liabilities are comprised as follows:

€ millions	As of December 31,	2008	2007
Other taxes payable		6	6
Liabilities with respect to social security		6	7
Sundry liabilities including deferred income		39	46
Total		51	59
of which current		37	44
of which non-current		14	15

Sundry liabilities are comprised as follows:

€ millions	As of December 31,	2008	2007
Liabilities to employees		17	18
Taxes and social security payments for employees		11	14
Commission payments payable		1	2
Payable to customers		1	1
Customer prepayments		1	–
Other		8	11
Total		39	46

Liabilities to employees largely comprise liabilities from the pre-retirement part-time employment plan and deferred compensation. In 2008, this figure contains €4 million (2007: €6 million) of liabilities with a remaining term of up to one year.

Of the liabilities above, €8 million (2007: €11 million) are considered financial liabilities within the scope of IFRS 7. For these financial liabilities, fair value approximates book value. The fair values of the above non-current financial liabilities are based on cash flows discounted using a rate based on the borrowings rate of 7.4% (2007: 8%).

Notes to the Consolidated Income Statement

(13) Research and development costs

Research and development costs include amortization of patents, capitalized development costs and other intangible assets of €34 million (2007: €33 million).

(14) Other operating income

€ millions	2008	2007
Term sheet services discontinued operations	23	40
Release of other provisions	8	6
Gains from disposals of fixed assets and divestments	1	7
Sundry	18	11
Total	50	64

In 2008, sundry operating income included €4 million from engineering services, €1 million from the sale of a minor product line, €1 million adjustments from post retirement benefits and €1 million from reimbursement claims.

(15) Other operating expenses

€ millions	2008	2007
Costs incurred for term sheets discontinued operations	23	40
Impairment losses on intangible and tangible assets	6	1
Impairment losses on inventories	3	–
Losses from disposal of fixed assets and divestments	1	1
Expenses for the implementation of SAP system	1	2
Sundry	13	11
Total	47	55

In 2008, sundry operating expenses included €3 million for adjustments of pension provisions, €1 million for engineering expenses, €1 million for other taxes and €1 million for customs duty.

In 2007, sundry other operating expenses included a €2 million addition to environmental provisions.

(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 have either been incurred or approved and announced.

Restructuring costs are comprised as follows:

€ millions	2008	2007
Employee severance, early retirement and pre-retirement programs	16	25
Impairment losses on tangible assets	5	9
Release of restructuring provisions	(1)	–
Other restructuring costs	7	15
Total	27	49

In 2008, other restructuring costs mainly comprised costs related to the realignment of the information technology (IT) structure (€2 million).

In 2007, other restructuring costs mainly comprised costs related to the realignment of the information technology (IT) structure (€12 million), the reorganization of the US business (€2 million) and costs related to fundamental reorganization projects.

The restructuring costs can be attributed to the different functional costs as follows:

€ millions	2008	2007
Cost of sales	14	13
Administrative expenses	6	15
Marketing, selling and distribution costs	1	10
Research and development costs	1	2
Other operating expenses	5	9
Total	27	49

(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 AG & Co. KGaA (former: Henkel KGaA) and the effects on operating earnings of events which are unusual and infrequent.

€ millions	2008	2007
Restructuring charges	(27)	(49)
Amortization of capitalized separation expenses	–	(2)
Other separation income/(expenses)	2	(1)
Impairment losses on intangible and tangible assets	(5)	(1)
Sundry exceptional expenses	(3)	(3)
Net gains/(losses) on disposals and divestments	–	7
Total	(33)	(49)

In 2008, other separation expenses related to IT separation, adjustments of pension provisions and a release of provisions.

In 2007, sundry exceptional expenses related mainly to additions to environmental and legal provisions for certain former sites.

(18) Net financial result

€ millions	2008	2007
Interest expense		
Nominal interest expense on:		
Senior Secured Notes and Loans	(105)	(69)
Senior Subordinated Notes	(33)	(33)
Senior Loans	–	(23)
Second Lien Loans and Notes	–	(16)
Amortization of financing fees	(7)	(9)
Finance leases	(2)	(1)
Other financial debt	(2)	(1)
Net interest expense on provisions for pensions and similar obligations	(21)	(22)
Other interest expense	(2)	(2)
Total interest expense	(172)	(176)
Interest income	3	6
Net interest expense	(169)	(170)
Gains/(losses) on interest derivatives		
Interest income/(expense) on interest derivatives	2	2
Interest derivatives not qualifying as cash flow hedges	(13)	–
Cash flow hedges: Transfers from IAS 39 reserve	(4)	8
Cash flow hedges: Current value changes	(8)	–
Income from investments	–	–
Foreign exchange gains/(losses)	(11)	16
Gains/(losses) on foreign currency derivatives not qualifying as cash flow hedges	(4)	(4)
Banking fees	(2)	(3)
Write-off of deferred financing fees from previous financing structure	–	(57)
Other financial charges	(3)	(1)
Other financial items	(43)	(39)
Net financial result	(212)	(209)

Total interest expense for financial instruments within the scope of IFRS 7 which are not measured at fair value through profit and loss was €155 million in 2008 (2007: €153 million). This amount includes total interest expense of €172 million (2007: €176 million) as mentioned above less net interest expense on provisions for pensions and similar obligations of €21 million (2007: €22 million), less added interest on sundry provisions of nil (2007: €1 million) plus interest expense on interest derivatives classified as cash flow hedges of €4 million (2007: nil).

Total interest income on such financial instruments was €3 million (2007: €7 million). This amount includes interest income of €3 million (2007: €6 million) and interest income on interest rate derivatives classified as cash flow hedges of nil (2007: €1 million).

(19) Income taxes

€ millions	2008	2007
Current taxes	(26)	(25)
Deferred taxes	(3)	(57)
Income tax benefit/(expense)	(29)	(82)

In 2008, current taxes on continued operations of €26 million (2007: €25 million) included income tax payments for prior years of €4 million (2007: €1 million benefit).

Deferred tax expenses incorporate effects from temporary differences and changes in the tax loss carry-forwards of €8 million (2007: €2 million income) relating primarily to the write-off of tax losses. The tax effect of the changes in temporary differences essentially offset each other in 2008. Other adjustments are €5 million benefit (2007: €7 million expenses). Impact from tax rate changes in 2008 was nil (2007: €52 million caused mainly by the German corporate tax reform).

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

€ millions	As of December 31,	2008	2007	2008	2007
		Deferred tax assets		Deferred tax liabilities	
Patents/Licenses		42	55	6	5
Goodwill		25	23	–	–
Property, plant and equipment		2	7	24	35
Inventories		7	10	4	1
Other receivables and other current assets		7	4	4	3
Provisions		51	58	4	4
Liabilities		9	7	11	19
Loss carry-forwards		81	77	–	–
Total		224	241	53	67
Offset		(37)	(47)	(37)	(47)
Balance sheet figures		187	194	16	20

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

Deferred tax assets are recognized to the extent they are expected to be realized. They relate primarily to Cognis' entities in Germany and the USA. Although losses arose in the current year, deferred tax assets resulting from tax loss carry-forwards recognized are expected to be realized within three and ten years from the balance sheet date, based on management business plans which project sufficient profit for future periods. The deferred tax asset on loss carry-forwards contains €12 million (2007: €12 million) because of interest deduction to be carried forward under US regulations.

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	As of December 31,	2008	2007
Expiry			
Between 1 and 3 years		–	1
for which no deferred tax assets have been recognized		–	–
After 3 years		198	196
for which no deferred tax assets have been recognized		194	191
Indefinite carry-forward		403	387
for which no deferred tax assets have been recognized		89	44
Total		601	584
for which no deferred tax assets have been recognized		283	235

In 2008, deferred tax assets were not recognized with respect to loss carry-forwards of €152 million (2007: €109 million), while accumulated valuation allowances of €131 million (2007: €126 million) were recognized on tax loss carry-forwards since there is insufficient evidence that these losses can be utilized within the foreseeable future.

Effective 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 available in Germany included in the table above amount to €380 million for corporate income tax and €105 million for trade tax.

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

€ millions	2008	2007
Profit/(loss) before tax	(20)	(23)
Tax rate on income of Cognis GmbH	30.7%	39.3%
Estimated tax benefit/(expense)	6	9
Effect of different tax rates in other countries	3	7
Tax effect on non-taxable income	3	6
Tax effect on non-deductible expenses	(15)	(14)
Current taxes from prior year	(4)	1
Other tax expenses	(22)	(91)
Income taxes	(29)	(82)
Effective tax rate	-144%	-359%

The tax rate of 30.7% for 2008 (2007: 39.3%) is based on the German corporate income tax rate of 15% (2007: 25%) plus a solidarity surcharge of 5.5% and an average trade tax rate of 14.9% (2007: 12.9%).

Other tax expenses in 2008 resulted mainly from the non-recognition of interest and tax loss carry-forwards. In 2007 the amount mainly included a deferred tax expense of €53 million resulting from the revaluation of the deferred tax assets and liabilities due to the German corporate tax reform, and the non-recognition of, and valuation allowances of €37 million on, the deferred tax assets in Germany and the USA.

(20) Discontinued operations

On July 23, 2008, we signed an agreement to sell our 50-percent-stake in the Oleochemicals joint venture to PTT Chemical International Private Ltd. The closing of the transaction took place on November 24, 2008 after relevant regulatory approvals had been obtained.

On July 14, 2008 we signed an agreement to sell our Pulcra Chemicals subsidiary to Fashion Chemicals GmbH & Co. KG. The closing of the transaction took place on October 31, 2008 after relevant regulatory approvals had been obtained.

On November 14, 2008 we sold our 50-percent-stake in the Thai Fatty Alcohols Company Ltd. (TFA) joint venture to Thai Oleochemicals Company Ltd., a subsidiary of PTT Chemicals Public Company Limited.

The results of our former sub-groups Oleochemicals and Pulcra Chemicals as well as of TFA are shown separately under "Net profit/(loss) for the period from discontinued operations" for all periods presented. As of June 30, 2008 (TFA September 30, 2008) all assets and liabilities have been classified as assets held for sale. Concurrent with the classification as held for sale, scheduled amortization and depreciation of these assets has ceased.

Net profit/(loss) for the period from discontinued operations

The following components are included in "Net profit/(loss) for the period from discontinued operations":

€ millions	2008	2007
Net profit/(loss) for the period up to the date of disposal	5	(15)
Loss on disposal of discontinued operations	(19)	-
Net profit/(loss) for the period from discontinued operations	(14)	(15)

The condensed income statement up to the date of the respective disposals is as follows:

€ millions	2008	2007
Sales	927	974
Cost of sales	(790)	(807)
Gross profit	137	167
Net operating expenses	(117)	(168)
Loss recognized on measurement to fair value less costs to sell (IFRS 5)	(8)	–
Operating profit (EBIT)	12	(1)
Net financial result	(3)	(9)
Profit/(loss) before tax	9	(10)
Income taxes	(4)	(5)
Net profit/(loss) for the period up to date of disposal	5	(15)

Loss on disposal of discontinued operations

All assets and liabilities allocated to discontinued operations as of the respective transaction dates have been disposed of in 2008. The loss on disposals of discontinued operations was €19 million and is included in “Net profit/(loss) for the period from discontinued operations”.

The loss on disposal of discontinued operations is as follows:

€ millions	2008
Net assets	242
Minorities	(116)
Net assets after minorities	126
Purchase price ¹⁾	131
Gain on divestments	5
Loss on derecognition of currency differences	(17)
Loss on deconsolidation	(12)
Cost to sell	(7)
Loss on disposal of discontinued operations	(19)

¹⁾ thereof: Oleo €104 million; Pulcra €23 million; TFA €4 million

Cash flow of discontinued operations

The cash flows of discontinued operations are as follows:

€ millions	2008	2007
Cash flows from operating activities	36	12
Cash flows from investing activities	(22)	(32)
Cash flows from financing activities	15	3

The capital expenditures of our discontinued operations were €12 million until the classification as held for sale and €10 million thereafter.

For more details concerning the business performance of our discontinued operations, also refer to section “Group Segment Reporting”.

(21) Minority interests

Minority interests represent the share of profits and losses attributable to minority shareholders. The net profit of the period attributable to minority shareholders was €7 million in 2008 (2007: €4 million).

(22) Cost of materials

€ millions	2008	2007	
		Cognis Group ¹⁾	thereof discontinued operations
Cost of raw materials, supplies and merchandise	1,803	2,054	402
Cost of external services	44	102	21
Total	1,847	2,156	423

¹⁾ As reported previously

(23) Payroll costs

€ millions	2008	2007	
		Cognis Group ¹⁾	thereof discontinued operations
Wages and salaries	316	380	67
Social security contributions and employee benefits	57	75	13
Pension costs	14	18	2
Total	387	473	82

¹⁾ as reported previously

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.

(24) Employee numbers

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

	2008	2007
Production	3,222	4,176
Research & Development	441	709
Sales & Marketing	622	896
Supply Chain/Purchasing	640	762
Administration	1,000	1,095
Total	5,925	7,638

The average number of employees in 2008 comprises the continuing operations only. The total average number of employees of discontinued operations was 1,548 in 2008.

The average number of employees in 2007 comprises the continuing operations as well as discontinued operations. The total average number of employees of discontinued operations was 1,576 in 2007.

Notes to the Consolidated Cash Flow Statement

(25) Acquisitions

Acquisitions in 2008 relate to an investment in the natural product specialist InterMed Discovery GmbH, Germany (€3 million) as well as an investment in PIK Loans due from Cognis Holding GmbH purchased in an open-market transaction.

In 2007, the Group acquired certain patents, know-how and equipment related to the production of natural beta-carotene in Australia for €1 million.

(26) Divestments and disposals of fixed assets

In 2008, cash flows from "Divestments and disposals of fixed assets" of €132 million relate to the sale of the discontinued operations Oleochemicals (€104 million), Pulcra Chemicals (€23 million) and TFA (€4 million) as well as a disposal of fixed assets (€1 million).

In 2007, cash flows from "Divestments and disposals of fixed assets" related mainly to the divestment of the G-Cure® business for €7 million and the disposal of land for €5 million.

(27) Capital repayments and distributions

In 2008, Cognis paid dividends of €2 million to the immediate parent company Cognis Beteiligungs-GmbH, which used the dividends for payment of real estate taxes resulting from the Refinancing Transaction in 2007.

In 2007, Cognis made a distribution of €357 million to Cognis Holding GmbH for partial redemption of their PIK Notes of €350 million and the associated redemption fees of 2% or €7 million.

(28) 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 recognized in operating profit (EBIT).

Cash payments in respect of pensions in 2008 comprised payments to beneficiaries of €26 million (2007: €26 million) and €3 million (2007: €10 million) contributions to pension funds, mainly in the USA, UK, Ireland and Canada.

The reconciliation to the amount in the cash flow statement reads as follows:

€ millions	2008	2007
Payments to beneficiaries made by the Group	(26)	(26)
Contributions to pension funds	(3)	(10)
Total payments	(29)	(36)
Pension costs included in operating profit	12	12
Pension payments net of service cost—continuing operations	(17)	(24)
Pension payments net of service cost—discontinued operations	(2)	(2)
Total pension payments net of service cost in cash flow	(19)	(26)

Supplementary Information

(29) Financial instruments

Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

€ millions	As of December 31, 2008						
	Book value	Cash and cash equivalents	Loans and receivables	Trading	Available-for-sale at cost	Hedging	Outside scope of IFRS 7
Investments	5	–	–	–	5	–	–
Trade receivables	423	–	423	–	–	–	–
Derivative financial instruments	3	–	–	1	–	2	–
Other assets	56	–	19	–	–	–	37
Cash and cash equivalents	226	226	–	–	–	–	–
Total	713	226	442	1	5	2	37

€ millions	As of December 31, 2008					
	Book value	Financial liabilities at amortized cost	Trading	Hedging	Leasing	Outside scope of IFRS 7
Borrowings	2,016	1,979	–	–	37	–
Trade payables	236	236	–	–	–	–
Derivative financial instruments	19	–	11	8	–	–
Other liabilities	51	8	–	–	–	43
Total	2,322	2,223	11	8	37	43

€ millions	As of December 31, 2007						
	Book value	Cash and cash equivalents	Loans and receivables	Trading	Available-for-sale at cost	Hedging	Outside scope of IFRS 7
Investments	2	-	-	-	2	-	-
Trade receivables	566	-	566	-	-	-	-
Derivative financial instruments	7	-	-	7	-	-	-
Other assets ¹⁾	101	-	53	-	-	-	48
Cash and cash equivalents	132	132	-	-	-	-	-
Total	808	132	619	7	2	-	48

¹⁾ Including receivable from Cognis Holding GmbH

€ millions	As of December 31, 2007					
	Book value	Financial liabilities at amortized cost	Trading	Hedging	Leasing	Outside scope of IFRS 7
Borrowings	2,067	2,037	-	-	30	-
Trade payables	347	347	-	-	-	-
Derivative financial instruments	4	-	-	4	-	-
Other liabilities	59	11	-	-	-	48
Total	2,477	2,395	-	4	30	48

For disclosures regarding fair values see the notes to the individual balance sheet items.

Net gains/(losses) of financial instruments by category

The following table summarizes the net gains and losses of financial instruments by category (excluding interest or dividends from financial instruments):

€ millions	As of December 31,	2008	2007
Loans and receivables			
Impairment losses		(4)	(3)
Reversals of impairment losses		1	1
Net losses on loans and receivables		(3)	(2)
Available-for-sale financial assets			
Net gains/(losses) on disposal		-	-
Derivative financial instruments classified as held for trading			
Net losses on derivative financial instruments classified as held for trading		(17)	(4)

As in 2007, net losses on trading financial instruments in 2008 related substantially to derivatives not qualifying as effective cash flow hedges.

Market risks

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

Overview of derivative financial instruments

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

€ millions	December 31, 2008		December 31, 2007	
	Assets	Liabilities	Assets	Liabilities
Interest derivatives				
- Cash flow hedges	-	(8)	-	(4)
- Held for trading	-	(10)	7	-
Foreign exchange derivatives				
- Cash flow hedges	2	-	-	-
- Held for trading	1	(1)	-	-
Total	3	(19)	7	(4)

In 2007, the previous interest rate hedging arrangements were modified to reflect the new financing structure of the Group. As a result of this modification, the new financing structure is in substance hedged against interest rate risk. However, some of Cognis' interest rate instruments no longer meet the formal requirements for cash flow hedge accounting under IAS 39. As a consequence, these instruments have been classified as held for trading.

The maximum exposure to credit risk at the reporting dates is the fair value of the derivative assets.

Foreign currency risks

Our results are impacted by both translation and transaction currency effects. Translation currency effects occur when the results of our subsidiaries outside the euro region, as measured in their non-euro, local currencies, are translated into euro using the exchange rates prevailing during the relevant period. Transaction currency effects occur when one of our subsidiaries incurs costs or earns revenues in a currency different from its functional currency.

We are exposed to transaction currency effects. On the one hand, we buy a significant portion of our raw materials in Germany and other regions in US dollars while having sales in euro or other non-US dollar currencies. On the other hand, we generate a portion of our sales in US dollars or other non-euro currencies while having a part of our production and cost base in Germany and other regions.

Cognis has put in place a range of hedging instruments in order to provide certainty in the home currency value of all identified future foreign currency cash flows. 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 March and July 2008, Cognis hedged expected 2008 US dollar operating transaction exposures using foreign currency derivative instruments. These hedged highly probable forecast transactions denominated in foreign currency occurred at various dates until the balance sheet date 2008.

Second, accounts receivable and accounts payable denominated in foreign currencies are hedged using foreign currency derivatives on a net basis by currency. An exposure will be hedged as soon as the occurrence of the underlying currency cash flow can be anticipated with reasonable degree of accuracy and where a certain value limit per currency pair is exceeded. Exposures denominated in Hong Kong dollar, which are closely tied to the US dollar, were hedged together with the US dollar exposure. Intercompany receivables 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 not qualifying as cash flow hedges were €4 million in 2008 (2007: €4 million).

The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2008 were €112 million (2007: €92 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 changes in foreign exchange rates may affect our ability to meet our debt service obligations.

For our previous financing structure, we synthetically adjusted the currency composition of our borrowings using cross-currency swaps. These swaps were settled as part of the refinancing process in May 2007. Losses of €1 million were recognized on these cross-currency swaps in 2007.

As of December 31, 2008, foreign exchange derivative financial instruments were substantially comprised of the following:

€ millions	EUR to receive	
	Nominal contract amount	Average contractual FX rate
Currency		
US dollar	50	1.35
Norwegian crown	29	9.23
Japanese yen	13	126.23
Australian dollar	3	2.05
Canadian dollar	1	1.70
South African rand	1	14.21

€ millions	EUR to pay	
	Nominal contract amount	Average contractual FX rate
Currency		
US dollar	(11)	1.40
British pound	(3)	0.93
Hong Kong dollar	(1)	11.04

Foreign currency sensitivity

The main foreign currency transaction risks are with respect to the US dollar, the euro and the British pound.

The following analysis details the Group's sensitivity to a 10% increase and decrease in the relevant foreign currency against all other currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, such as external receivables and payables as well as intra-Group receivables or payables where the receivable or payable is denominated in a currency other than the functional currency, as well as derivative financial instruments.

As of December 31, 2008, if the **US dollar** had strengthened by 10% against all other currencies with all other variables held constant, post-tax profit for the year would have been €21 million (2007: €13 million) lower. Conversely, if the US dollar had weakened by 10% against all other currencies with all other variables held constant, post-tax profit for the year would have been €17 million (2007: €11 million) higher. The higher foreign currency exchange rate sensitivity in profit in 2008 compared to 2007 is mainly attributable to the cross-currency swaps which were settled in 2007. The IAS 39 reserve would not materially have been affected in 2008 (2007: not materially been affected) if the US dollar had weakened or strengthened by 10% against all other currencies.

As of December 31, 2008, if the **euro** had strengthened by 10% against all other currencies with all other variables held constant, post-tax profit for the year would have been €3 million lower (2007: €8 million). Conversely, if the euro had weakened by 10% against all other currencies with all other variables held constant, post-tax profit for the year would have been €2 million higher (2007: €7 million). The lower foreign currency exchange rate sensitivity in profit in 2008 compared to 2007 is attributable to a decrease in net financial liabilities denominated in euro. The IAS 39 reserve would not have been affected.

As of December 31, 2008, if the **British pound** had strengthened by 10% against all other currencies with all other variables held constant, post-tax profit for the year would not materially have been affected (2007: €5 million higher). Conversely, if the British pound had weakened by 10% against all other currencies with all other variables held constant, post-tax profit for the year would not materially have been affected (2007: €4 million lower). The foreign currency exchange rate sensitivity in profit is not material in 2008, because the loans given to subsidiaries in British pound have been treated as net investments in foreign operations according to IAS 21. The IAS 21 reserve would have been €4 million higher after taxes if the British pound had strengthened by 10% against all other currencies and €4 million lower after taxes if the British pound had weakened by 10% against all other currencies. The IAS 39 reserve would not have been affected.

Interest rate risks

Cognis is exposed to the risk that interest paid or received will vary over a period of time as a consequence of changes in the levels of market rates. When debt is raised that is subject to a floating interest rate, hedging is arranged in order to provide a certain degree of protection against interest rate fluctuations.

Cognis has entered into various interest rate swap and option contracts in order to hedge the cash flow interest risk related to the variable interest component of our borrowings. 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.

In 2007, the previous interest rate hedging arrangements were modified to reflect the new financing structure. As a result of this modification, the new financing structure is in substance hedged against interest rate risk. However, some of our interest rate instruments no longer meet the formal requirements for cash flow hedge accounting under IAS 39. As a consequence, these instruments have been classified as held for trading.

Both interest rate option contracts and the interest rate swaps are remeasured to fair value as of the balance sheet date. Fair value gains amounting to €1 million (2007: losses of €3 million) were taken to the IAS 39 reserve in equity. These fair value adjustments are continuously released to net financial result as the hedged variable rate interest expense is recognized in income.

In 2008, fair value losses totaling €4 million (2007: gains of €8 million) were transferred from the IAS 39 equity reserve to the income statement. The gain in 2007 resulted mainly from the Refinancing Transaction in May 2007. The interest rate derivatives which were in place on December 31, 2006 became ineffective as the hedged transactions, i.e. the hedged variable interest payments of the previous Senior Loans and Second Lien Debt (see Note 10 "Borrowings"), were no longer expected to occur. As a consequence, the net cumulative gains of the related hedging instruments of €7 million deferred in equity until that date were recycled to income. 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. In 2008, negative deferred tax effects of €1 million (2007: positive €4 million) were recognized in equity.

Interest rate derivatives are comprised as follows:

Notional amount for next payment after December 31 (in millions)						
2008	2009	2010	2011	Maturity	Interest to receive	Interest to pay
					(3-month rates)	
Interest swaps						
€120	€120	€120	Expired	Jun. 15, 2011	Euribor	3.6700%
€120	€80	€80	Expired	Jun. 15, 2011	Euribor	3.6900%
€60	€40	€40	Expired	Jun. 15, 2011	Euribor	3.6775%
US\$ 125	US\$ 125	Expired	Expired	Jun. 15, 2010	US-Libor	4.5150%
Interest collar						
€240	€200	€200	Expired	Jun. 17, 2011	Euribor less 5.00% if Euribor is above 5.00%	3.398% less Euribor if Euribor is below 3.398%
Interest caps						
US\$ 50	US\$ 50	Expired	Expired	Jun. 15, 2010	US-Libor less 4.668% if US-Libor is above 4.668%	
US\$ 50	US\$ 50	Expired	Expired	Jun. 15, 2010	US-Libor less 4.67% if US-Libor is above 4.67%	
€367	€194	€38	€281	Dec. 17, 2012 at the latest	Euribor less 5.00% if Euribor is above 5.00%	
US\$ 240	US\$ 125	US\$ 290	US\$ 230	Dec. 17, 2012 at the latest	US-Libor less 6.00% if US-Libor is above 6.00%	

Payments with respect to all interest rate instruments are made on a quarterly basis with the reset dates being mid of March, June, September and December. The notional principal amounts of the outstanding interest rate derivatives which were effective at December 31, 2008 were €1,241 million (2007: €1,223 million).

Interest rate sensitivity

Risk scenarios are run only for borrowings representing the major interest-bearing positions.

Cognis does not have any material fixed rate financial assets and does not account for any fixed rate financial liabilities at fair value through profit or loss. Also, the Group does not designate interest derivatives as hedging instruments for a fair value hedge relationship. As regards fixed rate instruments, therefore, a change in interest rate at the reporting date would affect neither income nor equity.

As regards variable rate instruments, changes in interest rate would lead to the following effects: As of December 31, 2008, if interest rates had been 100 basis points higher with all other variables held constant, post-tax profit for the year would have been €5 million (2007: €5 million) lower. Conversely, if interest rates had been 100 basis points lower with all other variables held constant, post-tax profit for the year would have been €5 million (2007: €5 million) higher.

The IAS 39 reserve would have been €2 million (2007: €7 million) higher as a result of an increase in the fair value of interest rate derivatives classified as effective cash flow hedges if interest rates had been 100 basis points higher. Conversely, the IAS 39 reserve would have been €2 million (2007: €3 million) lower as a result of a decrease in the fair value of interest rate derivatives classified as effective cash flow hedges if interest rates had been 100 basis points lower.

Credit risk

Credit risk is the risk of loss arising from a customer's or counterparty's inability to meet its obligations. Given our business structure, the Cognis Group is primarily exposed to credit risk with respect to our trade and other receivables.

The Group's client base is broad and well diversified with customers in various consumer and industrial product end markets. Many of our customers are perceived to be leading companies in their respective market segments. During the reporting period, no customer represented more than 6% of total trade receivables.

We use a combination of external and internal ratings as a means of continuously monitoring our credit risk exposures. External rating analyses are carried out by reputable agencies, while our internal ratings are based on experiences gained with existing customers relating to their payment behavior and default rates combined with a range of soft facts. We aggregate this information to measure and evaluate the credit risk within our portfolios. To the extent possible and where reasonable, we insure certain portions of accounts receivable against insolvency risk.

The risk of default is covered by general and specific allowances for bad debts. To protect against defaults, the Cognis Group requires from specific customers payments in advance.

In 2008, we generated approximately 7% (2007: 7%) of our revenues with our largest customer. Cognis' other customers each accounted for less than 6% (2007: 5%) of revenues. The ten largest customers accounted for about 27% (2007: 23%) of revenues. Thus, Cognis is not subject to a significant concentration of credit risk.

The credit risk on liquid funds and derivative financial assets is limited because our counterparties are different banks with high credit ratings.

The maximum default risk is reflected by the carrying amounts of the financial instruments scheduled in the balance sheet.

Liquidity risk

Liquidity risk is the risk that the Cognis Group could face difficulties in meeting obligations regarding financial instruments. To meet the obligations associated with liquidity risk and to secure the liquidity of the Group at all time, Cognis ensures that sufficient funds are available to meet daily obligations, to fund future expansion and to secure the Group's liquidity in the event of adverse developments.

To guarantee our ability to meet financial obligations and to optimize financial structures both for the daily payment queue and for strategic reasons, Cognis prepares cash flow forecasts on a daily and monthly basis. Furthermore, Cognis monitors the bank balances of all Group companies in order to identify deposits of cash in Group companies and to set up cash pooling arrangements.

The following table shows the contractual undiscounted cash flows of derivatives and non-derivative financial liabilities.

€ millions	As of December 31, 2008							
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Non-derivative financial liabilities								
Senior Secured Floating Rate Notes	823	1,017	41	41	41	42	852	–
Senior Secured Floating Rate Loans	823	1,017	41	41	41	42	852	–
Senior Subordinated Notes	349	525	33	33	33	33	33	360
Other loans and bank overdrafts	31	33	27	1	1	1	1	2
Finance lease liabilities	37	47	7	7	5	5	5	18
Total nominal borrowings	2,063	2,639	149	123	121	123	1,743	380
Trade payables	236	236	236	–	–	–	–	–
Other liabilities	8	8	7	1	–	–	–	–
Total	2,307	2,883	392	124	121	123	1,743	380
Derivative financial liabilities								
Cash flow hedges	8	5	1	1	1	2	–	–
Held for trading	11	5	3	2	–	–	–	–

€ millions	As of December 31, 2007							
	Carrying amount	Contractual cash flows	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years
Non-derivative financial liabilities	2,479	3,837	578	157	156	195	152	2,599
Derivative financial liabilities	4	5	–	1	1	1	2	–

Amounts in foreign currency were translated using the closing rate at the reporting date. Contractual cash flows arising from the financial instruments were determined using the last interest rates fixed before December 31 of the respective year. The carrying amounts of financial instruments implying variable interest payments might deviate from the calculation of contractual cash outflows, because the carrying amounts are derived by using forward rates.

For available debt facilities, please refer to Note 10 "Borrowings".

(30) Contingent liabilities

Contingent liabilities were €12 million in 2008 (2007: nil), mainly due to pending tax assessments (€5 million), possible litigations (€3 million) and contingent pension liabilities (€2 million).

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, 2008, to December 31, 2008, with respect to the liabilities, as referred to in Section 5 (c) (ii) of that Act, of the subsidiary companies Cognis Ireland Limited, Dublin, Bumblebee Limited, Dublin, and Catstycam Limited, Dublin. As of the balance sheet date, the liabilities guaranteed total €6 million (2007: €6 million).

(31) 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	As of December 31,	2008	2007
Payment obligations under rent, leasehold and leasing agreements		32	79
– of which due in the following year		14	20
– in the 2nd year		8	14
– in the 3rd year		7	10
– in the 4th year		1	4
– in the 5th year		1	3
– in the 6th year or later		1	28
Orders for property, plant and equipment		7	15
Total		39	94

Cognis’ commitments to purchase intangible assets were nil as of December 31, 2008 (2007: nil). Other contractual obligations include a long-term purchasing contract valued at €116 million (2007: €151 million) with a contract term to 2017 and other purchasing contracts for inventories valued at €81 million (2007: €120 million).

For finance lease obligations, see Note 10 “Borrowings”.

(32) 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 €4,729 thousand (2007: €4,026 thousand) and post-employment benefits amounting to €90 thousand (2007: €234 thousand).

Compensation to former Management Board members amounted to €615 thousand (2007: €508 thousand).

Pension provisions of €16,634 thousand (2007: €17,117 thousand) for present and former Management Board members and their surviving dependants are included in accrued pension obligations.

The remuneration of the Supervisory Board amounted to €111 thousand (2007: €93 thousand).

In 2006, the Group granted loans amounting to €1,500 thousand to key members of senior management. In 2007, an additional €250 thousand and in 2008, an additional €100 thousand were granted. These loans bear annual interest of 5.0%, have an indefinite term and will be repaid upon the satisfaction of certain conditions.

(33) Auditor fees

In 2008, income included the following fees and reimbursed expenses, incurred as a result of services provided by Cognis’ auditor KPMG AG Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, and its affiliated companies:

€ millions	Cognis GmbH Group
Year-end financial statements audit	1.0
Other attestation and valuation services	0.4
Tax services	–
Other services	–
Total	1.4

(34) Related party transactions

Transactions with shareholder

The shares in Cognis GmbH were contributed by Cognis Holding GmbH to the new wholly-owned subsidiary Cognis Beteiligungs-GmbH in May 2007. Cognis Holding GmbH itself is owned by Cognis Holding Luxembourg S.à r.l. Significant transactions with current and former shareholders were as follows:

- In 2008, Cognis GmbH made a distribution of €2 million to Cognis Beteiligungs-GmbH, our immediate parent company. Cognis Beteiligungs-GmbH used the dividends for payment of real estate taxes resulting from the Refinancing Transaction in 2007.
- In 2007, Cognis GmbH made a distribution to Cognis Holding GmbH in the amount of €357 million. The capital distribution was applied by Cognis Holding GmbH to redeem part of their PIK Notes.

Equity participation scheme

The Cognis Group maintains an equity-related participation scheme for selected members of senior management and of the Supervisory Board through the partnerships Cognis Management Beteiligungs GbR, Cognis Management Beteiligungs GbR II, III, IV and V (collectively "Cognis GbR"), which collectively hold shares of Cognis Holding Luxembourg S.à r.l. Participating executives 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. and proceeds from the sale of shares held in Cognis Holding Luxembourg S.à r.l.

In total, selected members of senior management hold shares in Cognis Holding Luxembourg S.à r.l. via Cognis Management Beteiligungs GbRs with a notional value of €4,299 thousand (5.9%).

Cognis Management Beteiligungs GbR was established in June 2002. Cognis Management Beteiligungs GbR II was incorporated in May 2004. The partnership agreements do not prescribe 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 new shares in Cognis Holding Luxembourg S.à r.l. Cognis Management Beteiligungs GbR IV was also incorporated in December 2006 and subscribed new shares in Cognis Holding Luxembourg S.à r.l. in 2007. Cognis Management Beteiligungs GbR V was established in December 2008 and subscribed new shares in Cognis Holding Luxembourg S.à r.l. in 2008. The shares were issued in exchange for cash, the issuance price being in line with fair value.

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.

Further, affiliates of the Goldman Sachs Group, Inc. also:

- were among the lenders of Senior Loans;
- are Cognis' counterparties with respect to certain interest rate derivative instruments having a total notional value of €192 million (2007: €351 million) and foreign currency derivative instruments having a total notional value of nil (2007: €11 million);
- provide financial advisory services (together with Permira) to Cognis, together earning fees amounting to €2 million in 2008 (2007: €3 million);
- were involved in arranging the joint venture of the Oleochemicals business and received a fee of €2 million in 2006; and
- were involved in the recapitalization of Cognis in May 2007 as joint bookrunners, lead managers and underwriters, and in these capacities received an amount of €12 million in commissions and fees;
- are engaged to assist in connection with a Debt Purchase Program. The fees earned in this respect have been not material as of December 31, 2008.

For transactions with joint ventures, see Note 36 "Joint ventures".

(35) Principal subsidiary companies

		As of December 31,	2008	2007
Company	Domicile	% share of capital		
Cognis GmbH	Monheim (Germany)	100	100	100
Cognis IP Management GmbH	Düsseldorf (Germany)	100	100	100
Cognis Corporation	Cincinnati (USA)	100	100	100
Cognis France S.A.S.	Saint-Fargeau Ponthierry (France)	100	100	100
Cognis Iberia S.A.U.	Barcelona (Spain)	100	100	100
Cognis S.p.A.	Fino Mornasco (Italy)	100	100	100
Cognis Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	100	100	100
Cognis Brasil Ltda.	São Paulo (Brazil)	100	100	100
Cognis Japan Ltd.	Tokyo (Japan)	100	100	100
Cognis Chemicals (China) Co. Ltd.	Shanghai (China)	100	100	100
Cognis Mexico S.A. de C.V.	Ecatepec de Morelos (Mexico)	100	100	100
Cognis UK Ltd.	Southampton (UK)	100	100	100
Cognis Ireland Ltd.	Cork (Ireland)	100	100	100
Cognis B.V.	Hoofddorp (Netherlands)	100	100	100
Cognis Thai Ltd.	Bangkok (Thailand)	100	100	100
Cognis Oleochemicals (M) Sdn. Bhd.	Selangor (Malaysia)	–	–	50
Cognis Oleochemicals GmbH	Düsseldorf (Germany)	–	–	50

(36) Joint ventures

		As of December 31,	2008	2007
Company	Domicile	% share of capital		
Thai Ethoxylate Company Ltd.	Bangkok (Thailand)		50	50
Thai Fatty Alcohols Company Ltd.	Bangkok (Thailand)		–	50

On November 14, 2008 we sold our 50-percent-stake in the Thai Fatty Alcohols Company Ltd. (TFA) joint venture to Thai Oleochemicals Company Ltd., a subsidiary of PTT Chemicals Public Company Limited.

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

€ millions	As of December 31,	2008	2007
Current assets		6	7
Non-current assets		5	12
Current liabilities		4	6
Non-current liabilities		–	6

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. predominantly comprise sales. In 2008, sales from joint ventures to Group companies were €29 million (2007: €26 million), while sales to joint ventures amounted to €3 million (2007: €1 million).

As of December 31, 2008, trade receivables of the joint ventures with respect to Group companies were €3 million (2007: €4 million) and trade payables were €1 million (2007: €1 million).

Revenues recognized in 2008 arising from other contracts with joint ventures were not material (2007: not material).

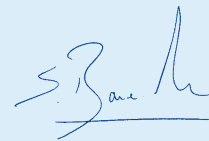
Monheim, February 18, 2009



Dr. Antonio Trius
Chief Executive Officer



Paul Allen
Executive Vice President
Functional Products



Stéphane Baseden
Executive Vice President
Nutrition & Health



Klaus Edelmann
Executive Vice President
Chief Financial Officer



Dr. Helmut Heymann
Executive Vice President
Chief Administration Officer



Richard Ridinger
Executive Vice President
Care Chemicals

Audit Opinion

“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, 2008. 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 [Handelsgesetzbuch “German Commercial Code”] 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, February 18, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Markus Uhde Guido Bomanns
Wirtschaftsprüfer Wirtschaftsprüfer

Supervisory Board and Corporate Management

Supervisory Board of Cognis GmbH

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

Dr. Michael Schulenburg

Chairman, Mettmann^{1) 3) 4)}

Director, Cognis Holding Luxemburg S.à r.l.
Lohmann GmbH & Co. KG, Neuwied
Odenwald Faserplattenwerk GmbH, Amorbach
Sartorius AG, Göttingen
TÜV Rheinland Berlin Brandenburg Pfalz e.V.,
Cologne (until June 2008)

Thomas Fischer

Vice Chairman, Düsseldorf^{2) 3) 4) 5)}

Chairman of the Workers' Council
of Cognis Europe
Vice Chairman of the Workers' Council
of Cognis Group workers' council
Vice Chairman of the Workers' Council
of Cognis GmbH, Düsseldorf site

Dr. Uwe-Ernst Bufe

Königsstein^{1) 3) 5)}

Former CEO of Degussa Hüls AG
UBS Deutschland, Frankfurt a.M.
Air Liquide GmbH, Düsseldorf (until April 2008)
Akzo Nobel N.V., Amsterdam, Netherlands
Solvay S.A., Brussels, Belgium
Umicore S.A., Brussels, Belgium
Kali + Salz AG, Kassel (since May 2008)
SunPower Inc., San Jose, USA (since August 2008)

Rolf Erler

Düsseldorf^{2) 5)}

Full-time Head of District, Industriegewerkschaft
Bergbau, Chemie, Energie
3M Deutschland GmbH, Neuss

Dr. Thomas Jetter

Bad Homburg¹⁾ (since April 23, 2008)

Senior Advisor, Permira Beteiligungs-
beratung GmbH
BorsodChem, Hungary (until October 2008)
Gourmondo GmbH, Munich

Dr. Bernhard Gutsche

Düsseldorf²⁾ (until February 14, 2008)

Director ED Process Development,
Cognis GmbH

Thomas Hergarten

Düsseldorf²⁾

Chairman of the Workers' Council of
Cognis GmbH, Düsseldorf site
Chairman of the Workers' Council of
Cognis Group workers' council
Vice Chairman of the Workers' Council of
Cognis Europe

Björn Killmer

London, United Kingdom¹⁾

Director, Cognis Holding Luxembourg S.à r.l.
Managing Director, Goldman Sachs
International

Udo Stark

Munich^{1) 5)}

Former CEO MTU Aero Engines
Holding AG
Bilfinger Berger AG, Mannheim
MTU Aero Engines AG, Munich
Prismian S.p.A., Milan, Italy
Oystar Holding GmbH, Karlsruhe

Andreas Süssenbach

Solingen²⁾ (since February 14, 2008)

Director Care Global Production
Management, Cognis GmbH
Chairman of representative committee
of executive employees, Cognis GmbH

Peter Antoszewski

Bad Münders²⁾

Head of Wilhelm-Gefeller-Bildungszentrum,
Industriegewerkschaft Bergbau, Chemie,
Energie

Sonnhild Dannowski

Illertissen^{2) 3)}

Vice Chairman of the Workers' Council
of Cognis GmbH, Illertissen site

Séverine Michel

Luxembourg¹⁾ (until April 23, 2008)

Director, Cognis Holding Luxembourg S.à r.l.
Manager, Permira Luxembourg S.à r.l.
debitel AG, Stuttgart

John Cheesmond

Basel, Switzerland^{1) 4)}

Managing Director SBV
Former Executive Vice President
& Management Board Member Ciba
Specialty Chemicals
Inolex Inc., Philadelphia, USA

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 Audit Committee

Cognis GmbH Management Board

Dr. Antonio Trius

Chief Executive Officer

Paul Allen

Executive Vice President
Functional Products

Stéphane Baseden

Executive Vice President
Nutrition & Health

Klaus Edelmann

Executive Vice President
Chief Financial Officer

Dr. Helmut Heymann

Executive Vice President
Chief Administration Officer

Richard Ridinger

Executive Vice President
Care Chemicals

Cognis Executive Council

Dr. Carl Braun

Chief Legal Counsel
Group Vice President
Legal, Insurance, Intellectual
Properties and Product
Safety & Regulations

Dr. Christoph Breucker

Group Vice President
Corporate Operations,
Functional Products Europe

Dr. Marco Panichi

Group Vice President
Corporate Controlling
and Development
(since February 1, 2009)

Dr. Jürgen Scherer

Group Vice President
Sales/Key Account Management
Care Chemicals
Global Supply Chain
Services & Purchasing
Legal Representative
Cognis Germany

Bernhard Vogtland

Group Vice President
Corporate Finance,
Tax and Investor Relations

Dr. Levent Yüksel

Group Vice President
Care Surfactants & Alcohols
Global Operations Management
Care Chemicals

Dr. Yusuf Aktalay

Chief Executive Officer
Pulcra Chemicals
(until October 31, 2008)

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

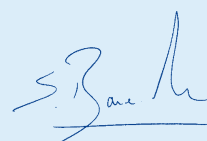
Monheim, February 18, 2009



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