

# Consolidated Financial Statements

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# Cognis Consolidated Balance Sheet

As of December 31,	2007		2006		Note
	€ millions	%	€ millions	%	
<b>ASSETS</b>					
<b>Non-current assets</b>					
Intangible assets	250	10.0	286	10.8	(1)
Property, plant and equipment	719	28.7	754	28.6	(2)
Investments	2	0.1	2	0.1	(3)
Derivative financial instruments—non-current portion	–	–	5	0.2	(27)
Other non-current assets	19	0.8	19	0.7	(6)
Deferred income tax assets	194	7.7	252	9.5	(19)
<b>Total non-current assets</b>	<b>1,184</b>	<b>47.3</b>	<b>1,318</b>	<b>49.9</b>	
<b>Current assets</b>					
Inventories	526	21.0	495	18.8	(4)
Trade receivables	566	22.6	537	20.4	(5)
Income tax refunds receivable	8	0.3	8	0.3	(19)
Derivative financial instruments—current portion	7	0.3	8	0.3	(27)
Receivable from Cognis Holding GmbH	32	1.3	–	–	(6)
Other current assets	50	1.9	41	1.5	(6)
Cash and cash equivalents	132	5.3	233	8.8	(7)
<b>Total current assets</b>	<b>1,321</b>	<b>52.7</b>	<b>1,322</b>	<b>50.1</b>	
<b>Total assets</b>	<b>2,505</b>	<b>100.0</b>	<b>2,640</b>	<b>100.0</b>	

As of December 31,	2007		2006		Note
	€ millions	%	€ millions	%	
<b>EQUITY AND LIABILITIES</b>					
<b>EQUITY</b>					
Equity attributable to the Group's equity holders	(716)	(28.6)	(233)	(8.8)	
Minority interests	106	4.2	113	4.3	
<b>Total equity</b>	<b>(610)</b>	<b>(24.4)</b>	<b>(120)</b>	<b>(4.5)</b>	<b>(8)</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Provisions for pensions and similar obligations	435	17.4	444	16.8	(9)
Other provisions—non-current portion	39	1.5	41	1.6	(9)
Borrowings—non-current portion	1,994	79.6	1,575	59.6	(10)
Derivative financial instruments—non-current portion	4	0.2	4	0.1	(27)
Other non-current liabilities	15	0.6	13	0.5	(12)
Deferred income tax liabilities	20	0.8	21	0.8	(19)
<b>Total non-current liabilities</b>	<b>2,507</b>	<b>100.1</b>	<b>2,098</b>	<b>79.4</b>	
<b>Current liabilities</b>					
Other provisions—current portion	138	5.5	141	5.3	(9)
Income tax provisions	6	0.2	7	0.3	(19)
Borrowings—current portion	73	2.9	129	4.9	(10)
Trade payables	347	13.9	333	12.6	(11)
Derivative financial instruments—current portion	–	–	3	0.1	(27)
Other current liabilities	44	1.8	49	1.9	(12)
<b>Total current liabilities</b>	<b>608</b>	<b>24.3</b>	<b>662</b>	<b>25.1</b>	
<b>Total liabilities</b>	<b>3,115</b>	<b>124.4</b>	<b>2,760</b>	<b>104.5</b>	
<b>Total equity and liabilities</b>	<b>2,505</b>	<b>100.0</b>	<b>2,640</b>	<b>100.0</b>	

# Cognis Consolidated Income Statement

	2007		2006		Note
	€ millions	%	€ millions	%	
<b>Sales</b>	<b>3,518</b>	<b>100.0</b>	<b>3,372</b>	<b>100.0</b>	
Cost of sales	(2,631)	(74.8)	(2,497)	(74.1)	
<b>Gross profit</b>	<b>887</b>	<b>25.2</b>	<b>875</b>	<b>25.9</b>	
Marketing, selling and distribution costs	(429)	(12.2)	(439)	(13.0)	
Research and development costs	(91)	(2.6)	(94)	(2.8)	(13)
Administrative expenses	(117)	(3.3)	(120)	(3.6)	
Other operating income	25	0.7	42	1.3	(14)
Other operating expenses	(36)	(1.0)	(23)	(0.7)	(15)
	<b>239</b>	<b>6.8</b>	<b>241</b>	<b>7.1</b>	
Restructuring costs	(54)	(1.5)	(35)	(1.0)	(16)
<b>Operating profit (EBIT)</b>	<b>185</b>	<b>5.3</b>	<b>206</b>	<b>6.1</b>	(17)
Interest income	8	0.2	7	0.2	
Interest expense	(181)	(5.1)	(172)	(5.1)	
Other financial items	(46)	(1.3)	1	–	
<b>Net financial result</b>	<b>(219)</b>	<b>(6.2)</b>	<b>(164)</b>	<b>(4.9)</b>	(18)
<b>Profit/(loss) before tax</b>	<b>(34)</b>	<b>(0.9)</b>	<b>42</b>	<b>1.2</b>	
Income taxes	(86)	(2.5)	(40)	(1.2)	(19)
<b>Net profit/(loss) for the period</b>	<b>(120)</b>	<b>(3.4)</b>	<b>2</b>	<b>–</b>	
<b>Attributable to:</b>					
Equity holders of the Group	(124)	(3.5)	(2)	(0.1)	
Minority interests	4	0.1	4	0.1	(20)
	<b>(120)</b>	<b>(3.4)</b>	<b>2</b>	<b>–</b>	

# 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	Currency translation reserve	Total		
<b>Balance at January 1, 2006</b>	<b>205</b>	<b>(317)</b>	<b>(8)</b>	<b>(87)</b>	<b>(207)</b>	<b>59</b>	<b>(148)</b>
<b>Net profit/(loss) for the period</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>(2)</b>	<b>4</b>	<b>2</b>
Translation differences	-	-	-	(18)	(18)	(5)	(23)
Dilution result from the contribution and/or sale of parts of the Oleochemicals business	-	(16)	-	-	(16)	16	-
Cash flow hedges							
Fair value gains/(losses)	-	-	12	-	12	-	12
Deferred taxes	-	-	(6)	-	(6)	-	(6)
Transfers from IAS 39 reserve to income statement	-	-	4	-	4	-	4
<b>Net income/(expense) recognized directly in equity</b>	<b>-</b>	<b>(16)</b>	<b>10</b>	<b>(18)</b>	<b>(24)</b>	<b>11</b>	<b>(13)</b>
<b>Total recognized net income/(expense) for the period</b>	<b>-</b>	<b>(18)</b>	<b>10</b>	<b>(18)</b>	<b>(26)</b>	<b>15</b>	<b>(11)</b>
<b>Capital contribution</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40</b>	<b>40</b>
<b>Capital repayments and distributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>
<b>Balance at December 31, 2006</b>	<b>205</b>	<b>(335)</b>	<b>2</b>	<b>(105)</b>	<b>(233)</b>	<b>113</b>	<b>(120)</b>
<b>Net profit/(loss) for the period</b>	<b>-</b>	<b>(124)</b>	<b>-</b>	<b>-</b>	<b>(124)</b>	<b>4</b>	<b>(120)</b>
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)
<b>Net income/(expense) recognized directly in equity</b>	<b>-</b>	<b>4</b>	<b>(7)</b>	<b>1</b>	<b>(2)</b>	<b>(10)</b>	<b>(12)</b>
<b>Total recognized net income/(expense) for the period</b>	<b>-</b>	<b>(120)</b>	<b>(7)</b>	<b>1</b>	<b>(126)</b>	<b>(6)</b>	<b>(132)</b>
<b>Capital repayments and distributions</b>	<b>-</b>	<b>(357)</b>	<b>-</b>	<b>-</b>	<b>(357)</b>	<b>(1)</b>	<b>(358)</b>
<b>Balance at December 31, 2007</b>	<b>205</b>	<b>(812)</b>	<b>(5)</b>	<b>(104)</b>	<b>(716)</b>	<b>106</b>	<b>(610)</b>

# Cognis Consolidated Cash Flow Statement

€ millions	2007	2006	Note
<b>Operating profit (EBIT)</b>	<b>185</b>	<b>206</b>	
Income taxes paid	(31)	(42)	
Depreciation/(write-ups) of fixed assets	175	159	
Net (gains)/losses from disposals of fixed assets and divestments	(6)	(3)	
<b>Cash earnings</b>	<b>323</b>	<b>320</b>	
Change in inventories	(48)	(36)	
Change in receivables and other assets	(50)	(32)	
Change in liabilities and provisions	20	52	
<b>Cash flows from operating activities</b>	<b>245</b>	<b>304</b>	
Capital expenditure on intangible assets	(16)	(8)	
Capital expenditure on property, plant and equipment	(116)	(92)	
Acquisitions	(1)	(42)	(24)
Divestments and disposals of fixed assets	12	6	(25)
<b>Cash flows from investing activities</b>	<b>(121)</b>	<b>(136)</b>	
Capital contributions	–	40	
Capital repayments and distributions	(358)	(1)	
Pension payments net of service costs	(26)	(41)	(26)
Draw-down/(repayment) of borrowings	396	101	
Interest and dividends received	8	7	
Interest paid and other financial charges	(245)	(152)	
<b>Cash flows from financing activities</b>	<b>(225)</b>	<b>(46)</b>	
<b>Net cash flows</b>	<b>(101)</b>	<b>122</b>	
Foreign exchange effect	–	4	
<b>Change in cash and cash equivalents</b>	<b>(101)</b>	<b>126</b>	
Cash and cash equivalents at beginning of period	233	107	
Cash and cash equivalents at end of period	132	233	

# 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 Strategic Business Units Care Chemicals, Nutrition & Health and Functional Products and the businesses Pulcra Chemicals and Oleochemicals.

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

Effective July 1, 2007, the former Process Chemicals SBU has been trading within the Cognis Group under the new name of Pulcra Chemicals.

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

## **Transfers within the Group**

For supplies within the Cognis core businesses and within the 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 sub-groups are transacted on the basis of individual supply and distribution agreements.

The 2006 figures have been changed to reflect the amended transfer pricing agreements between inter-company affiliates in place from January 1, 2007. The impact of this restatement on the SBU results is in general not material.

## **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.

Primary Segments (Segments by Business Unit)							
€ millions	Care Chemicals	Nutrition & Health	Functional Products	Pulcra Chemicals	Oleo-chemicals	Other Activities	Group
<b>Net sales 2007</b>	<b>1,476</b>	<b>331</b>	<b>878</b>	<b>250</b>	<b>729</b>	<b>54</b>	
Change from previous year <sup>1)</sup>	%	6.7	4.7	4.1	-3.0	2.8	-40.9
2006		1,383	317	844	258	710	91
<b>Net external sales 2007</b>	<b>1,447</b>	<b>331</b>	<b>874</b>	<b>246</b>	<b>599</b>	<b>21</b>	<b>3,518</b>
Change from previous year <sup>1)</sup>	%	6.7	4.7	4.0	-4.7	8.3	-56.0
Proportion of total Group sales	%	41.1	9.4	24.9	7.0	17.0	0.6
2006		1,356	316	841	258	553	48
Proportion of total Group sales	%	40.2	9.4	25.0	7.6	16.4	1.4
<b>Operating profit (EBIT) 2007</b>	<b>129</b>	<b>42</b>	<b>51</b>	<b>(21)</b>	<b>7</b>	<b>(23)</b>	<b>185</b>
Change from previous year <sup>1)</sup>	%	6.5	-19.3	14.0	-913.2	-33.1	-10.5
Return on sales <sup>1)</sup>	%	8.9	12.6	5.9	-8.7	1.3	-107.8
2006 as restated		121	52	46	3	11	(27)
Return on sales <sup>1)</sup>	%	8.9	16.4	5.4	1.3	2.0	-53.0
2006 as reported previously		125	52	46	3	11	(31)
Return on sales <sup>1)</sup>	%	9.2	16.4	5.4	1.3	2.0	-63.9
<b>Depreciation, amortization, impairment charges and reversals thereof 2007</b>	<b>72</b>	<b>20</b>	<b>35</b>	<b>21</b>	<b>21</b>	<b>6</b>	<b>175</b>
of which impairment losses and reversals thereof		1	5	3	13	-	1
2006 as restated		72	15	34	9	19	10
of which impairment losses and reversals thereof		(1)	-	-	-	(2)	1
2006 as reported previously		68	15	34	9	19	14
of which impairment losses and reversals thereof		(1)	-	-	-	(2)	1
<b>Capital expenditure<sup>2)</sup></b>							
2007		59	19	22	7	25	-
2006		44	9	18	9	20	-
<b>Net operating assets employed 2007</b>							
<b>Operating assets</b>	<b>944</b>	<b>257</b>	<b>513</b>	<b>140</b>	<b>394</b>	<b>60</b>	<b>2,308</b>
<b>Operating liabilities</b>	<b>305</b>	<b>59</b>	<b>153</b>	<b>77</b>	<b>127</b>	<b>37</b>	<b>758</b>
<b>Net operating assets employed</b>	<b>639</b>	<b>198</b>	<b>360</b>	<b>63</b>	<b>267</b>	<b>23</b>	<b>1,550</b>
2006 as restated							
Operating assets		904	257	503	184	346	78
Operating liabilities		285	57	152	76	99	44
Net operating assets employed		619	200	351	108	247	34
2006 as reported previously							
Operating assets		915	257	502	176	346	76
Operating liabilities		285	57	152	76	99	44
Net operating assets employed		630	200	350	100	247	32
<b>Research and development costs 2007<sup>3)</sup></b>	<b>50</b>	<b>8</b>	<b>20</b>	<b>8</b>	<b>3</b>	<b>2</b>	<b>91</b>
As a percentage of sales <sup>1)</sup>	%	3.5	2.5	2.3	3.2	0.5	11.6
2006 <sup>3)</sup>		45	9	22	9	2	7
As a percentage of sales <sup>1)</sup>	%	3.3	2.8	2.6	3.7	0.3	13.9

<sup>1)</sup> Percentages calculated on the basis of the segment figures in € thousands. Starting 2007, percentages are calculated on the basis of the exact underlying segment figures.

<sup>2)</sup> Excluding investments in financial assets and acquisitions.

<sup>3)</sup> Including the amortization of step-up on patents and other intangible assets (see also Note 13).

## Secondary Segments (Segments by Geographical Region)

€ millions	Germany	Rest of Europe	North America <sup>3)</sup>	Central and South America <sup>4)</sup>	Asia-Pacific	Africa	Group
<b>Net external sales by company jurisdiction 2007</b>	<b>1,126</b>	<b>886</b>	<b>766</b>	<b>189</b>	<b>547</b>	<b>4</b>	<b>3,518</b>
Change from previous year <sup>1)</sup>	% 8.9	-1.1	-4.0	16.1	14.6	19.9	4.3
Proportion of total Group sales <sup>1)</sup>	% 31.9	25.2	21.8	5.4	15.6	0.1	100.0
2006	1,034	896	798	163	478	3	3,372
Proportion of total Group sales <sup>1)</sup>	% 30.6	26.6	23.7	4.8	14.2	0.1	100.0
<b>Net external sales by destination 2007</b>	<b>563</b>	<b>1,294</b>	<b>773</b>	<b>234</b>	<b>616</b>	<b>38</b>	<b>3,518</b>
Change from previous year <sup>1)</sup>	% 9.1	3.4	-2.5	0.6	13.7	2.6	4.3
Proportion of total Group sales <sup>1)</sup>	% 16.0	36.8	22.0	6.6	17.5	1.1	100.0
2006	516	1,251	793	232	542	38	3,372
Proportion of total Group sales <sup>1)</sup>	% 15.3	37.1	23.5	6.9	16.1	1.1	100.0
<b>By company jurisdiction:</b>							
<b>Capital expenditure<sup>2)</sup> 2007</b>	<b>57</b>	<b>23</b>	<b>34</b>	<b>2</b>	<b>16</b>	<b>-</b>	<b>132</b>
2006	33	17	27	2	21	-	100
<b>Operating assets employed 2007</b>	<b>599</b>	<b>799</b>	<b>420</b>	<b>104</b>	<b>385</b>	<b>1</b>	<b>2,308</b>
2006	583	822	441	80	345	1	2,272

<sup>1)</sup> Percentages calculated on the basis of the segment figures in € thousands. Starting 2007, percentages are calculated on the basis of the exact underlying segment figures.

<sup>2)</sup> Excluding investments in financial assets and acquisitions.

<sup>3)</sup> Including Mexico.

<sup>4)</sup> 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, 2007 and 2006 is presented in the following table:

€ millions	As of December 31,	2007			2006		
		Segment operating assets	Non-operating portion/Consolidation	Balance sheet figures	Segment operating assets	Non-operating portion/Consolidation	Balance sheet figures
Intangible assets		250	–	250	286	–	286
Property, plant and equipment		719	–	719	754	–	754
Investments		–	2	2	–	2	2
Deferred income tax assets		–	194	194	–	252	252
Inventories		526	–	526	495	–	495
Trade receivables from third parties		566	–	566	537	–	537
Trade receivables from affiliated companies		195	(195)	–	159	(159)	–
Income tax refunds receivable		–	8	8	–	8	8
Derivative financial instruments		–	7	7	–	13	13
Other assets/Receivable from Cognis Holding GmbH		52	49	101	41	19	60
Cash and cash equivalents		–	132	132	–	233	233
<b>Total assets</b>		<b>2,308</b>	<b>197</b>	<b>2,505</b>	<b>2,272</b>	<b>368</b>	<b>2,640</b>
Trade payables to third parties		347	–	347	333	–	333
Trade payables to affiliated companies		195	(195)	–	159	(159)	–
Other provisions and liabilities		216	20	236	221	23	244
Derivative financial instruments		–	4	4	–	7	7
Provisions for pensions and similar obligations		–	435	435	–	444	444
Income tax provisions		–	6	6	–	7	7
Deferred income tax liabilities		–	20	20	–	21	21
Borrowings		–	2,067	2,067	–	1,704	1,704
<b>Total provisions and liabilities</b>		<b>758</b>	<b>2,357</b>	<b>3,115</b>	<b>713</b>	<b>2,047</b>	<b>2,760</b>
<b>Net assets/Equity and minority interests</b>		<b>1,550</b>	<b>(2,160)</b>	<b>(610)</b>	<b>1,559</b>	<b>(1,679)</b>	<b>(120)</b>

# 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, 2007, 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 prior periods to conform such presentation to the current period presentation.

On March 18, 2008, the Management Board of Cognis GmbH approved the 2007 consolidated financial statements and agreed to distribute these to shareholders.

## Scope of Consolidation

Effective May 17, 2007, all shares of Cognis GmbH were transferred from Cognis Holding GmbH to Cognis Beteiligungs-GmbH whose sole shareholder is Cognis Holding GmbH. The ultimate parent is Cognis Holding Luxembourg S.à r.l. A total of 68 (2006: 61) legal entities are included in the 2007 consolidated financial statements.

Their regional distribution is as follows:

As of December 31,	2007	2006
North-West Europe, Africa	22	23
Southern Europe	10	8
North America <sup>1)</sup>	8	6
Central and South America <sup>2)</sup>	6	5
Asia-Pacific	22	19
<b>Total</b>	<b>68</b>	<b>61</b>

<sup>1)</sup> Including Mexico.

<sup>2)</sup> Excluding Mexico.

The carve-out of Pulcra Chemicals accounts for eight additional companies, three in Southern Europe, two in Asia-Pacific, two in North America and one in Central and South America.

Furthermore, one company in Northern Europe and one in Asia-Pacific were newly incorporated and one smaller company was liquidated.

Due to the corporate reorganization preceding the Refinancing Transaction, two German companies were merged into Cognis GmbH and ceased to exist.

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

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

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

## Accounting Policies

### Basis of consolidation

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

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

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

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

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

### Joint ventures

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

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

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

**Foreign currency**

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

The Group’s foreign operations are financially, economically and organizationally independent of Cognis GmbH. As a result, the assets and liabilities, including goodwill and fair value adjustments arising on consolidation, of the Group’s foreign

operations are translated from these operations’ measurement currencies (normally their local currencies) to euros at the foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of these foreign operations are translated to 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		2007	2006	2007	2006
	ISO code	Average rate		Closing rate	
British pounds	GBP	0.6842	0.6817	0.7334	0.6715
Japanese yen	JPY	161.2311	146.0114	164.9300	156.9300
US dollars	USD	1.3703	1.2556	1.4721	1.3170
Malaysian ringgit	MYR	4.7077	4.6045	4.8682	4.6490

**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 Strategic Business Units, plus Pulcra Chemicals and Oleochemicals, 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, which 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 Strategic Business Units plus the businesses Oleochemicals and Pulcra Chemicals have been defined as cash-generating unit by Cognis' management.

Impairment losses are reversed when the reasons for the recognition of the impairment loss no longer exist. The impairment loss, however, is reversed only to the extent that the carrying value of the asset does not exceed the carrying value 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 the classification of such embedded leases as operating or finance leases. Embedded leases, in which substantially all the risks and rewards of ownership are assumed by the Group, are classified as finance leases as required by IAS 17.

#### **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 or 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 2006, Cognis held no investments classified as held to maturity during 2007.

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 (based on normal capacity utilization), but excludes borrowing costs.

#### **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.

Unless the derivative is designated and effective as a hedging instrument, the fair value gains or losses are recognized immediately in net financial result. 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 net financial result.

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.

#### **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, Senior Subordinated Notes, Senior Loans and Second Lien Loans and 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 August 2005, the IASB issued IFRS 7 "Financial Instruments: Disclosures", which is applicable effective January 1, 2007, and which requires extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and also qualitative and quantitative disclosures on the nature and extent of risks. The financial statements of Cognis have been adjusted to reflect these extensive disclosure requirements.

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

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

In March 2006, the IFRIC issued IFRIC 9 "Reassessment of Embedded Derivatives", which requires that a reassessment of whether embedded derivatives should be separated from the

underlying host contract be made only if there are changes to the contract. IFRIC 9 is applicable for fiscal years beginning on or after June 1, 2006. The interpretation did not have a material impact on the Group's consolidated financial statements.

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

### **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, 2007, 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. The Group is still in the process of identifying the potential effects of the standard.

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

Also in November 2006, the IFRIC issued IFRIC 12 "Service Concession Arrangements", which addresses how service concession operators should apply existing 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 is not expected to have any impact on the consolidated financial statements of the Group.

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 Group has not yet determined the potential effect of the amendment.

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 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 will not 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. The Group has not yet determined the potential effect of the standard.

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. The Group has not yet determined the potential effect of the standard.

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 Group has not yet determined the potential effect of the amendment.

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. The Group has not yet determined the potential effect of the amendment.

## 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
<b>Cost: At January 1, 2006</b>	<b>112</b>	<b>389</b>	<b>17</b>	<b>6</b>	<b>524</b>
Changes in the Group	46	–	–	–	46
Additions	–	1	6	1	8
Disposals	–	(4)	(2)	–	(6)
Reclassifications	–	2	–	(2)	–
Translation differences	(3)	(1)	–	–	(4)
<b>At December 31, 2006</b>	<b>155</b>	<b>387</b>	<b>21</b>	<b>5</b>	<b>568</b>
<b>Accumulated amortization: At January 1, 2006</b>	<b>9</b>	<b>226</b>	<b>4</b>	<b>–</b>	<b>239</b>
Amortization	–	46	3	–	49
Impairment losses	–	–	–	1	1
Disposals	–	(4)	(2)	–	(6)
Translation differences	(1)	–	–	–	(1)
<b>At December 31, 2006</b>	<b>8</b>	<b>268</b>	<b>5</b>	<b>1</b>	<b>282</b>
<b>Net book value: At December 31, 2006</b>	<b>147</b>	<b>119</b>	<b>16</b>	<b>4</b>	<b>286</b>
<b>Cost: At January 1, 2007</b>	<b>155</b>	<b>387</b>	<b>21</b>	<b>5</b>	<b>568</b>
Changes in the Group	–	1	–	–	1
Additions	–	4	8	4	16
Disposals	–	(12)	–	(1)	(13)
Translation differences	(3)	(1)	–	–	(4)
<b>At December 31, 2007</b>	<b>152</b>	<b>379</b>	<b>29</b>	<b>8</b>	<b>568</b>
<b>Accumulated amortization: At January 1, 2007</b>	<b>8</b>	<b>268</b>	<b>5</b>	<b>1</b>	<b>282</b>
Amortization	–	43	4	–	47
Impairment losses	–	4	–	–	4
Disposals	–	(12)	–	(1)	(13)
Translation differences	(2)	–	–	–	(2)
<b>At December 31, 2007</b>	<b>6</b>	<b>303</b>	<b>9</b>	<b>–</b>	<b>318</b>
<b>Net book value: At December 31, 2007</b>	<b>146</b>	<b>76</b>	<b>20</b>	<b>8</b>	<b>250</b>

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

€ millions	As of December 31,	2007	2006
Care Chemicals		64	67
Nutrition & Health		26	25
Functional Products		56	55
<b>Group</b>		<b>146</b>	<b>147</b>

€8 million (2006: €6 million) of the Group's €64 million (2006: €64 million) research and development expenditure (excluding capitalized development costs and amortization of previously capitalized development costs and patents) was capitalized in 2007.

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.

In 2007 and 2006, no impairment losses on goodwill were recognized.

Impairment losses of €4 million (2006: €1 million) were recognized in 2007 on other intangible assets and were shown in "Other operating expenses". The write-downs in 2007 to fair value less costs to sell was made based on strategic considerations and an assessment of the existing uncertainties in the financial markets. The impairment loss in 2006 was a result of a discontinued IT project.

There were no reversals of impairment losses on intangible assets in 2007 or 2006.

### Impairment test

The recoverable amount of goodwill, intangible assets and property, plant and equipment in each 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 2008 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 2008. To arrive at the recoverable amounts of the three Strategic Business Units, pre-tax capital costs ranging between approximately 10% and 14% (2006: 10% to 14%) were applied for each cash-generating unit.

The recoverable amount of other units has been determined based on fair values less costs 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 40% lower, an additional impairment charge of €6 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 €13 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
<b>Cost: At January 1, 2006</b>	<b>596</b>	<b>22</b>	<b>1,971</b>	<b>38</b>
Changes in the Group	2	–	4	2
Additions	4	–	23	–
Disposals	(3)	–	(39)	–
Reclassifications	6	–	50	–
Translation differences	(28)	–	(78)	–
<b>At December 31, 2006</b>	<b>577</b>	<b>22</b>	<b>1,931</b>	<b>40</b>
<b>Accumulated depreciation: At January 1, 2006</b>	<b>312</b>	<b>9</b>	<b>1,535</b>	<b>17</b>
Depreciation	19	–	82	2
Impairment losses	–	–	1	–
Write-ups	(3)	–	(1)	–
Disposals	(3)	–	(38)	–
Reclassifications	–	–	–	–
Translation differences	(16)	–	(64)	–
<b>At December 31, 2006</b>	<b>309</b>	<b>9</b>	<b>1,515</b>	<b>19</b>
<b>Net book value: At December 31, 2006</b>	<b>268</b>	<b>13</b>	<b>416</b>	<b>21</b>
<b>Cost: At January 1, 2007</b>	<b>577</b>	<b>22</b>	<b>1,931</b>	<b>40</b>
Additions	8	–	33	1
Disposals	(6)	–	(23)	(3)
Reclassifications	5	–	37	(19)
Translation differences	(17)	–	(59)	–
<b>At December 31, 2007</b>	<b>567</b>	<b>22</b>	<b>1,919</b>	<b>19</b>
<b>Accumulated depreciation: At January 1, 2007</b>	<b>309</b>	<b>9</b>	<b>1,515</b>	<b>19</b>
Depreciation	17	1	78	3
Impairment losses	4	–	12	–
Disposals	(2)	–	(22)	(3)
Reclassifications	–	–	–	(13)
Translation differences	(10)	–	(48)	–
<b>At December 31, 2007</b>	<b>318</b>	<b>10</b>	<b>1,535</b>	<b>6</b>
<b>Net book value: At December 31, 2007</b>	<b>249</b>	<b>12</b>	<b>384</b>	<b>13</b>

Factory and office equipment	thereof finance leases	Prepayments and assets under construction	Total
<b>184</b>	<b>3</b>	<b>48</b>	<b>2,799</b>
-	-	-	6
5	-	60	92
(16)	-	-	(58)
2	-	(58)	-
(7)	-	(3)	(116)
<b>168</b>	<b>3</b>	<b>47</b>	<b>2,723</b>
<b>154</b>	<b>1</b>	<b>1</b>	<b>2,002</b>
11	1	-	112
-	-	-	1
-	-	-	(4)
(15)	-	-	(56)
1	-	(1)	-
(6)	-	-	(86)
<b>145</b>	<b>2</b>	<b>-</b>	<b>1,969</b>
<b>23</b>	<b>1</b>	<b>47</b>	<b>754</b>
<b>168</b>	<b>3</b>	<b>47</b>	<b>2,723</b>
8	3	67	116
(15)	-	-	(44)
3	-	(45)	-
(3)	-	(3)	(82)
<b>161</b>	<b>6</b>	<b>66</b>	<b>2,713</b>
<b>145</b>	<b>2</b>	<b>-</b>	<b>1,969</b>
10	1	-	105
2	-	1	19
(14)	-	-	(38)
-	-	-	-
(3)	-	-	(61)
<b>140</b>	<b>3</b>	<b>1</b>	<b>1,994</b>
<b>21</b>	<b>3</b>	<b>65</b>	<b>719</b>

### Impairment losses and reversals of impairment losses

In 2007, impairment losses of €19 million on tangible assets were recognized in other operating expenses (€10 million) and restructuring expenses (€9 million). The write-downs in 2007 to fair value less costs to sell was made based on strategic considerations and an assessment of the existing uncertainties in the financial markets and in connection with site closures and relocations relating to restructuring initiatives. In 2006, impairment losses amounting to €1 million were recognized on property, plant and equipment. This impairment was shown in other operating expenses.

There were no reversals of impairment losses in 2007. In 2006, impairment losses in the Care Chemicals SBU and in Oleochemicals were reversed because the reasons for the impairment losses no longer existed, resulting in exceptional other operating income of €4 million.

The methods used and results of the impairment test are described in Note 1 "Intangible assets".

### Finance lease agreements

In 2007, Cognis entered into new finance lease agreements for computer equipment, with leasing fees relating to contract durations between 36 and 48 months.

Finance leases for buildings comprise leases to 2016. Cognis has exercised the purchase option at contract maturity in 2007 with respect to one of our leased technical facilities.

**(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
<b>Cost: At January 1, 2006</b>	<b>3</b>	<b>2</b>	<b>5</b>
Additions	-	-	-
Translation differences	-	-	-
<b>At December 31, 2006</b>	<b>3</b>	<b>2</b>	<b>5</b>
<b>Accumulated amortization: At January 1, 2006</b>	<b>3</b>	<b>-</b>	<b>3</b>
Impairment losses	-	-	-
Translation differences	-	-	-
<b>At December 31, 2006</b>	<b>3</b>	<b>-</b>	<b>3</b>
<b>Net book value: At December 31, 2006</b>	<b>-</b>	<b>2</b>	<b>2</b>
<b>Cost: At January 1, 2007</b>	<b>3</b>	<b>2</b>	<b>5</b>
Additions	-	-	-
Translation differences	-	-	-
<b>At December 31, 2007</b>	<b>3</b>	<b>2</b>	<b>5</b>
<b>Accumulated amortization: At January 1, 2007</b>	<b>3</b>	<b>-</b>	<b>3</b>
Impairment losses	-	-	-
Translation differences	-	-	-
<b>At December 31, 2007</b>	<b>3</b>	<b>-</b>	<b>3</b>
<b>Net book value: At December 31, 2007</b>	<b>-</b>	<b>2</b>	<b>2</b>

For the above-mentioned investments, a market price is not available. Other valuation techniques, such as discounting expected cash flows, were also not applied because the cash flows could not be reliably determined. In consequence, these investments have been measured at cost.

As of December 31, 2007, no decision had been taken to dispose of the above-mentioned investments.

In 2006, Cognis disposed of an equity investment which had been carried at cost. Its carrying amount at the time of derecognition was less than €1 million. The disposal gain was €2 million.

There were no impairment losses relating to investments in affiliates and other investments in 2007 or 2006.

#### (4) Inventories

Inventories are comprised as follows:

€ millions	As of December 31,	2007	2006
Raw materials and supplies		168	161
Work in process		120	105
Finished goods and merchandise		236	227
Payments on account		2	2
<b>Total</b>		<b>526</b>	<b>495</b>

Valuation allowances amounting to €16 million have been recorded as of December 31, 2007 (2006: €10 million).

#### (5) Trade receivables

As in 2006, all trade receivables as of December 31, 2007, 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. These valuation allowances are recorded on separate accounts.

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

€ millions	As of December 31,	2007	2006
Neither due nor impaired		481	436
Overdue but not impaired			
less than 31 days		66	85
31 to 60 days		13	14
61 to 90 days		4	2
Impaired (both due and not overdue)		13	16
<b>Total</b>		<b>577</b>	<b>553</b>

#### Movement 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	2007	2006
<b>As of January 1</b>	<b>16</b>	<b>12</b>
Additions	3	5
Utilization	(7)	–
Unused amounts released	(1)	(1)
<b>As of December 31</b>	<b>11</b>	<b>16</b>

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 €1 million in 2007 (2006: nil). Income from recoveries on receivables previously written off was nil in 2007 (2006: 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 relates to withholding tax paid by Cognis GmbH on behalf of Cognis Holding GmbH in connection with the Refinancing Transaction. This amount is expected to be refunded by the tax authorities in 2008, upon which Cognis Holding GmbH will repay Cognis GmbH in full.

Other assets are comprised as follows:

€ millions	As of December 31,	2007	2006
Other tax refunds receivable		30	20
Deferred compensation trust fund assets		5	7
Prepaid expenses		5	5
Accounts receivable from employees		4	4
Insurance receivables/deposits		4	3
Deposits		3	3
Prepayments made		2	3
Accounts receivable from suppliers		2	3
Other assets		14	12
<b>Total</b>		<b>69</b>	<b>60</b>
of which current		50	41
of which non-current		19	19

Other assets include reimbursement claims of €3 million (2006: €3 million) relating to certain environmental costs.

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

Of the assets above, €53 million (2006: €21 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 8% (2006: 8%). The financial assets were neither overdue nor impaired in 2007 and 2006. There were no valuation allowances on such receivables in 2007 or 2006.

**(7) Cash and cash equivalents**

As of December 31, 2007, cash and cash equivalents of €71 million secured Senior Secured Debt (2006: €155 million, which secured Senior Loans).

Cash and cash equivalents at the end of the period included liquid funds of €13 million (2006: €8 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.

**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, we sold our global Oleochemicals business, specifically fatty acids, glycerin, oilfield chemicals, azelaic acid and pelargonic acid, as well as our Plastics Technology business to our existing, fully consolidated 50:50 Malaysian joint venture.

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 the prior year, a dilution result of €4 million was recognized directly in equity.

**Capital management policy**

The Group's financing structure shows a negative equity of €610 million, nominal borrowings of €2,121 million and pension obligations of €477 million.

Cognis' 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 30% to 35%.

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

In 2007, provisions developed as follows:

€ millions	January 1, 2007							December 31, 2007	
		Utilized	Released	Added	Added interest	Translation differences	Other movements	Total	Total
Provisions for pensions and similar obligations	444	(40)	(3)	17	23	(7)	1	435	444
Provisions for income taxes	7	(7)	(2)	8	–	–	–	6	7
Sundry provisions	182	(131)	(9)	137	1	(3)	–	177	182
<b>Total</b>	<b>633</b>	<b>(178)</b>	<b>(14)</b>	<b>162</b>	<b>24</b>	<b>(10)</b>	<b>1</b>	<b>618</b>	<b>633</b>

### 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,	2007			
		Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations		392	54	6	452
Present value of funded defined benefit obligations		–	203	96	299
Fair value of plan assets		–	(185)	(89)	(274)
		<b>392</b>	<b>72</b>	<b>13</b>	<b>477</b>
Unrecognized actuarial (losses)/gains		(29)	(28)	2	(55)
Unrecognized past service (costs)/gains		–	13	–	13
<b>Provisions for pensions and similar obligations</b>		<b>363</b>	<b>57</b>	<b>15</b>	<b>435</b>

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

**Movement in the liability for defined benefit obligations**

€ millions	2007	2006
Liability for defined benefit obligations at January 1	836	885
Total benefits paid to beneficiaries	(44)	(45)
Current service cost	16	18
Interest expense	40	41
Plan amendments	3	(17)
Actuarial (gains)/losses	(67)	(8)
Foreign exchange differences	(33)	(38)
<b>Liability for defined benefit obligations at December 31</b>	<b>751</b>	<b>836</b>

**Movement in plan assets**

€ millions	2007	2006
Fair value of plan assets at January 1	281	277
Contributions paid into the plan	13	13
Benefits paid to beneficiaries through plan assets	(17)	(17)
Expected return on plan assets	21	21
Actuarial (losses)/gains	(1)	11
Foreign exchange differences	(23)	(24)
<b>Fair value of plan assets at December 31</b>	<b>274</b>	<b>281</b>
Actual return on plan assets	20	31

Plan assets consist of the following:

%	As of December 31,	2007	2006
Equity securities		67.3	66.4
Debt securities		28.8	24.0
Real estate		0.1	–
Other		3.8	9.6
<b>Total</b>		<b>100.0</b>	<b>100.0</b>

**Expenses recognized in profit or loss**

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

€ millions	2007	2006
Current service cost	16	18
Operating actuarial losses	1	–
Pension costs	17	18
Other costs for obligations similar to pensions	(3)	(18)
<b>Pension costs included in EBIT</b>	<b>14</b>	<b>–</b>
Interest expense	40	41
Expected return on plan assets	(21)	(21)
Financial actuarial losses	4	8
<b>Net pension costs included in net financial result</b>	<b>23</b>	<b>28</b>
<b>Total cost of pensions and similar obligations</b>	<b>37</b>	<b>28</b>

Pension costs of €14 million (2006: nil) are included in operating profit (EBIT). In 2006, the pension costs included a €12 million one-time past service gain resulting from changes made to German pension plans, as well as a €4 million one-time gain resulting from the curtailment of certain future retirement benefits in the USA, and other recurring past service gains—mainly in the USA—of €2 million.

The financial charges, that is 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). €4 million of actuarial losses, primarily resulting from changes in the discount rate, were included in net financing costs on this basis (2006: €8 million).

Expenses for defined contribution plans were €17 million in 2007 (2006: €16 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:

%	2007	2006	2007	2006
	Germany		USA	
Discount rate	5.4	4.6	6.0	5.75
Future salary increase				
(in the USA: including benefits increase)	2.5	2.5	4.5	4.5
Future benefits increase	1.0–1.5	1.0–1.5	–	–
Medical cost trend	–	–	9.0	10.0
Expected return on plan assets	–	–	8.5	8.5
Actual return on plan assets	–	–	9.3	11.4

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

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

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

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

€ millions	2007		2006	
	Valuation trend +1%	Valuation trend –1%	Valuation trend +1%	Valuation trend –1%
Effect on total service and interest cost	–	–	1	–
Effect on defined benefit obligation	5	(5)	7	(6)

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

### History of experience gains and losses

€ millions	As of December 31,	2007	2006	2005	2004	2003
Present value of defined benefit obligations		751	836	885	751	713
Fair value of plan assets		(274)	(281)	(277)	(221)	(222)
<b>Funded status</b>		<b>477</b>	<b>555</b>	<b>608</b>	<b>530</b>	<b>491</b>

The overall actual return on plan assets was in line with the expected return for the Group in total (2006: approximately 4% higher than the expected return). Due to experience adjustments (i.e. the effects of differences between previous actuarial assumptions and what has actually occurred), the defined benefit

obligation at balance sheet date is 3% higher (2006: 1% higher) than it would have been if the actual experience had equaled the actuarial assumptions.

The Group expects to pay around €44 million in direct pension payments and contributions to plan assets in 2008.

### Sundry provisions

Sundry provisions developed as follows:

€ millions	January 1, 2007							December 31,	
		Utilized	Released	Added	Added interest	Translation differences	Other movements	2007	2006
Restructuring costs	33	(13)	(1)	23	–	–	–	42	33
Employee bonuses	42	(42)	–	42	–	(1)	(1)	40	42
Commissions and bonuses	19	(19)	–	16	–	–	–	16	19
Environmental protection measures	11	(2)	–	2	1	(1)	–	11	11
Employment anniversary bonuses	10	–	–	–	–	–	–	10	10
Employee vacation claims	8	(6)	(1)	7	–	–	–	8	8
Provisions for other taxes	3	–	–	–	–	–	–	3	3
Litigation risks	2	(2)	–	2	–	–	–	2	2
Other	54	(47)	(7)	45	–	(1)	1	45	54
<b>Total</b>	<b>182</b>	<b>(131)</b>	<b>(9)</b>	<b>137</b>	<b>1</b>	<b>(3)</b>	<b>–</b>	<b>177</b>	<b>182</b>

As of December 31, 2007, sundry provisions totaling €39 million were due after more than one year (2006: €41 million). Included in "Other" are provisions for onerous contracts amounting to €7 million (2006: €8 million).

The expected cash outflows for sundry provisions are as follows:

€ millions	As of December 31,	2007	2006
Expected cash outflows			
– of which due in the following year		138	141
– in the 2nd year		13	20
– in the 3rd year		8	4
– in the 4th year		4	2
– in the 5th year		3	2
– in the 6th year or later		11	13
<b>Total</b>		<b>177</b>	<b>182</b>

#### (10) Borrowings

Borrowings comprise the interest-bearing obligations of the Cognis Group outstanding at December 31, 2007.

The Group's borrowings are comprised as follows:

€ millions	Accrued interest	Principal repayable within years						Total principal	Outstanding	
		< 1	1 to 2	2 to 3	3 to 4	4 to 5	> 5		Dec. 31, 2007	Dec. 31, 2006
<b>Maturity of borrowings</b>										
Senior Secured Floating Rate Notes	3	–	–	–	–	–	809	809	812	–
Senior Secured Floating Rate Loans	2	–	–	–	–	–	809	809	811	–
Senior Subordinated Notes	4	–	–	–	–	–	345	345	349	349
Senior Loans	–	–	–	–	–	–	–	–	–	901
Second Lien Notes and Loans	–	–	–	–	–	–	–	–	–	397
Other loans and bank overdrafts	1	66	3	1	43	1	4	118	119	95
Finance lease liabilities	–	4	4	3	3	2	14	30	30	33
<b>Total nominal borrowings 2007</b>	<b>10</b>	<b>70</b>	<b>7</b>	<b>4</b>	<b>46</b>	<b>3</b>	<b>1,981</b>	<b>2,111</b>	<b>2,121</b>	<b>1,775</b>
Less: Deferred financing fees	–	(7)	(8)	(9)	(9)	(10)	(11)	(54)	(54)	(71)
<b>Borrowings 2007</b>	<b>10</b>	<b>63</b>	<b>(1)</b>	<b>(5)</b>	<b>37</b>	<b>(7)</b>	<b>1,970</b>	<b>2,057</b>	<b>2,067</b>	<b>1,704</b>
<b>Total nominal borrowings 2006</b>	<b>12</b>	<b>131</b>	<b>85</b>	<b>89</b>	<b>109</b>	<b>94</b>	<b>1,255</b>	<b>1,763</b>		<b>1,775</b>
Less: Deferred financing fees	–	(14)	(13)	(12)	(11)	(9)	(12)	(71)		(71)
<b>Borrowings 2006</b>	<b>12</b>	<b>117</b>	<b>72</b>	<b>77</b>	<b>98</b>	<b>85</b>	<b>1,243</b>	<b>1,692</b>		<b>1,704</b>

### 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, 2007, the US dollar loans and notes bore interest of 6.99% and the euro loans and notes 6.95%, giving an overall average interest rate of 6.96%. Including the amortization of financing fees, the Senior Secured Debt bears an effective interest rate of 7.20%.

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

### Revolving Credit Facility

In addition, 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.

### 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 10.23%. The original indenture agreement was amended by a supplemental indenture agreement dated May 1, 2007.

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

### Available debt facilities

As of December 31, 2007, Cognis had in place a long-term committed revolving credit facility in the amount of €250 million as described above (2006: €250 million). This revolving credit facility was not drawn as per December 31, 2007, but €30 million (2006: €46 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 (2006: Senior Loans):

€ millions	As of December 31,	2007	2006
Intangible assets excluding goodwill		–	130
Property, plant and equipment		319	557
Inventories		234	353
Trade receivables		197	381
Cash and cash equivalents		71	155
Other assets		4	59
<b>Total</b>		<b>825</b>	<b>1,635</b>

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 €4 million (2006: €27 million).

### Covenants

The loan agreement 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.

### 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, and 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,	2007	2006
Senior Secured Floating Rate Notes		757	–
Senior Secured Floating Rate Loans		756	–
Senior Subordinated Notes		332	377
Senior Loans		–	908
Second Lien Loans and Notes		–	401
Other loans and bank overdrafts		118	95
Finance lease liabilities		29	32
<b>Total borrowings</b>		<b>1,992</b>	<b>1,813</b>

The fair values of Cognis' Senior Secured Floating Rate Loans and Notes, Senior Subordinated Notes, Senior Loans and Second Lien Loans and 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 8.0% (2006: 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,	2007	2006
Due up to 1 year		4	8
Due between 1 and 5 years		15	13
Due later than 5 years		17	19
<b>Total minimum lease payments</b>		<b>36</b>	<b>40</b>
Less: Interest component		(6)	(7)
<b>Present value of finance lease liabilities</b>		<b>30</b>	<b>33</b>

The interest rates implicit in the finance lease liabilities range from 4 to 8 percent (2006: 3 to 8 percent).

### (11) Trade payables

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

### (12) Other liabilities

Other liabilities are comprised as follows:

€ millions	As of December 31,	2007	2006
Other taxes payable		6	7
Liabilities with respect to social security		7	7
Sundry liabilities including deferred income		46	48
<b>Total</b>		<b>59</b>	<b>62</b>
of which current		44	49
of which non-current		15	13

Sundry liabilities are comprised as follows:

€ millions	As of December 31,	2007	2006
Liabilities to employees		18	19
Taxes and social security payments for employees		14	15
Commission payments payable		2	2
Payable to customers		1	2
Customer prepayments		–	1
Other		11	9
<b>Total</b>		<b>46</b>	<b>48</b>

Liabilities to employees largely comprise liabilities from the pre-retirement part-time employment plan and deferred compensation. In 2007, this figure included €6 million (2006: €6 million) of liabilities with a remaining term of up to one year.

Of the liabilities above, €11 million (2006: €13 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 8% (2006: 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 €35 million (2006: €36 million).

### (14) Other operating income

€ millions	2007	2006
Gains from disposals of fixed assets and divestments	7	3
Release of other provisions	6	10
Release of provisions for pensions and similar obligations	–	18
Write-ups to fixed assets	–	4
Sundry	12	7
<b>Total</b>	<b>25</b>	<b>42</b>

### (15) Other operating expenses

€ millions	2007	2006
Impairment losses on intangible and tangible assets	14	2
Impairment losses on inventories	6	–
Expenses for the implementation of SAP system	2	7
Losses from disposal of fixed assets and divestments	1	1
Sundry	13	13
<b>Total</b>	<b>36</b>	<b>23</b>

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 are either incurred or approved and announced.

Restructuring costs are comprised as follows:

€ millions	2007	2006
Employee severance, early retirement and pre-retirement programs	26	16
Impairment losses on tangible assets	9	–
Costs related to the carve-out of the Process Chemicals business (non-personnel related)	3	–
Costs related to the carve-out of the Oleochemicals business (non-personnel related)	–	5
Release of restructuring provisions	(1)	(1)
Other restructuring costs	17	15
<b>Total</b>	<b>54</b>	<b>35</b>

In 2007, other restructuring costs mainly comprised costs related to the realignment of the information technology (IT) structure (€13 million), the reorganization of the US business (€2 million) and costs related to fundamental reorganization projects.

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

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

€ millions	2007	2006
Cost of sales	16	20
Marketing, selling and distribution costs	11	4
Research and development costs	2	3
Administrative expenses	16	8
Other operating expenses	9	–
<b>Total</b>	<b>54</b>	<b>35</b>

### (17) Operating profit (EBIT)—exceptional items

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

€ millions	2007	2006
Restructuring charges	(54)	(35)
Impairment losses on intangible and tangible assets	(13)	(2)
Amortization of capitalized separation expenses	(2)	(6)
Other separation expenses	(1)	(3)
Costs relating to the labor action in USA	–	(1)
Sundry exceptional expenses	(11)	(7)
Net gains/(losses) on disposals and divestments	7	3
Release of provisions for pensions and post-retirement health-care obligations	–	16
Write-ups on intangible and tangible assets	–	4
<b>Total</b>	<b>(74)</b>	<b>(31)</b>

In 2007, sundry exceptional expenses related mainly to impairment losses on inventories amounting to €6 million, additions to environmental and legal provisions for certain former sites amounting to €2 million, and advisory costs of €2 million.

For a description of the exceptional gain resulting from the release of pension provisions in 2006, see Note 9 "Provisions for pensions and similar obligations".

**(18) Net financial result**

€ millions	2007	2006
Interest expense		
Nominal interest expense on:		
Senior Secured Notes and Loans	(69)	–
Senior Subordinated Notes	(33)	(33)
Senior Loans	(23)	(58)
Second Lien Loans and Notes	(16)	(32)
Amortization of financing fees	(9)	(15)
Finance leases	(1)	(1)
Other financial debt	(4)	(3)
Net interest expense on provisions for pensions and similar obligations	(23)	(28)
Other interest expense	(3)	(2)
<b>Total interest expense</b>	<b>(181)</b>	<b>(172)</b>
Interest income	8	7
<b>Net interest expense</b>	<b>(173)</b>	<b>(165)</b>
Gains/(losses) on interest derivatives		
Interest income/(expense) on interest derivatives	2	–
Cash flow hedges: Transfers from IAS 39 reserve	8	(4)
Cash flow hedges: Ineffective portions	–	1
Income from investments	–	2
Foreign exchange gains/(losses)	9	8
Gains/(losses) on foreign currency derivatives not qualifying as cash flow hedges	(3)	(3)
Banking fees	(3)	(3)
Write-off of deferred financing fees from previous financing structure	(57)	–
Other financial charges	(2)	–
<b>Other financial items</b>	<b>(46)</b>	<b>1</b>
<b>Net financial result</b>	<b>(219)</b>	<b>(164)</b>

Total interest expense for financial instruments within the scope of IFRS 7 which are not measured at fair value through the income statement was €157 million in 2007 (2006: €148 million). This amount includes total interest expense of €181 million (2006: €172 million) as mentioned above less net interest expense on provisions for pensions and similar obligations of €23 million (2006: €28 million), less added interest on sundry provisions of €1 million (2006: nil) plus interest expense on interest derivatives classified as cash flow hedges (2006: €4 million).

Total interest income on such financial instruments was €9 million (2006: €7 million). This amount includes interest income of €8 million (2006: €7 million) and interest income on interest derivatives classified as cash flow hedges of €1 million (2006: nil).

**(19) Income taxes**

€ millions	2007	2006
Current taxes	(30)	(29)
Deferred taxes	(56)	(11)
<b>Income tax benefit/(expense)</b>	<b>(86)</b>	<b>(40)</b>

In 2007, current taxes of €30 million (2006: €29 million) included income tax benefits arising from refunds for prior years of €1 million (2006: €3 million).

Deferred tax expense incorporates effects from temporary differences including changes in the tax loss carry-forwards of –€3 million (2006: €9 million), changes in deferred tax assets of €53 million (2006: €1 million) caused mainly by the Germany corporate tax reform, and other adjustments of €6 million (2006: €1 million) due primarily to a revaluation of deferred tax assets.

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

€ millions	As of December 31,	2007	2006	2007	2006
		Deferred tax assets	Deferred tax assets	Deferred tax liabilities	Deferred tax liabilities
Patents/Licenses		55	73	5	7
Goodwill		23	32	–	1
Property, plant and equipment		7	2	35	44
Inventories		10	11	1	1
Other receivables and other current assets		4	4	3	4
Provisions		58	69	4	2
Liabilities		7	10	19	14
Loss carry-forwards		77	103	–	–
		<b>241</b>	<b>304</b>	<b>67</b>	<b>73</b>
Offset		(47)	(52)	(47)	(52)
<b>Balance sheet figures</b>		<b>194</b>	<b>252</b>	<b>20</b>	<b>21</b>

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. Although losses arose in the current year, deferred tax assets resulting from tax loss carry-forwards are expected to be realized within three and fifteen years from the balance sheet date, based on management business plans which project sufficient profit for future periods. Deferred tax assets relate primarily to Cognis' subsidiaries in Germany and the USA. The income forecasts show sufficient profitability for the utilization of the deferred tax assets. 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 €53 million decrease in net deferred tax assets resulted from the German tax reform which was enacted on July 6, 2007. The corporate tax rate has been reduced to 15% with effect from January 2008, resulting in a future combined tax rate of about 30.7% including local trade tax for the German subsidiaries. Consequently, deferred tax assets and liabilities of the German subsidiaries required revaluation. Moreover, revalued tax losses will be subject to more stringent rules in case of an ownership change of more than 50%.

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

€ millions	As of December 31,	2007	2006
Expiry			
Between 1 and 3 years		1	3
for which no deferred tax assets have been recognized		–	1
After 3 years		196	227
for which no deferred tax assets have been recognized		191	174
Indefinite carry-forward		387	282
for which no deferred tax assets have been recognized		44	3
<b>Total</b>		<b>584</b>	<b>512</b>
for which no deferred tax assets have been recognized		235	178

In 2007, deferred tax assets were not recognized with respect to loss carry-forwards of €109 million (2006: €107 million), while cumulated valuation allowances of €126 million (2006: €71 million) were recognized on tax loss carry-forwards, since there is insufficient evidence that these losses can be utilized.

Beginning in 2004, German tax law restricts offsetting taxable income against existing tax loss carry-forwards, to an amount of €1 million plus 60% of taxable income above €1 million. Tax loss carry-forwards in Germany included in the table above amount to €359 million for corporate income tax and €125 million for trade tax.

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

€ millions	2007	2006
Profit/(loss) before tax	(34)	42
Tax rate on income of Cognis GmbH	39.3%	39.3%
Estimated tax benefit/(expense)	13	(17)
Effect of different tax rates in other countries	7	7
Tax effect on non-taxable income	5	6
Tax effect on non-deductible expenses	(18)	(4)
Current taxes from prior year	1	3
Other tax (expense)/income	(94)	(35)
<b>Income taxes</b>	<b>(86)</b>	<b>(40)</b>
<b>Effective tax rate</b>	<b>–257%</b>	<b>95%</b>

The tax rate of 39.3% for 2007 (2006: 39.3%) is based on the German corporate income tax rate of 25% plus a solidarity surcharge of 5.5% and an average trade tax rate of 12.9% (2006: 12.9%). Other tax (expense)/income in 2007 consists primarily of the deferred tax expense of €53 million resulting from the revaluation of the deferred tax assets and liabilities because of the German corporate tax reform (see above), and the non-recognition of, and valuation allowances of €37 million on, the deferred tax assets in Germany and the USA. In 2006, other tax (expense)/income consisted primarily of the non-recognition of, and valuation allowances of €22 million on, certain deferred tax assets, and the non-deductible interest component with respect to local taxes amounting to €7 million.

## (20) Minority interests

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

For a description of the capital contribution of Cognis' minority shareholders, see Note 8 "Equity".

## (21) Cost of materials

€ millions	2007	2006
Cost of raw materials, supplies and merchandise	2,054	1,906
Cost of external services	102	117
<b>Total</b>	<b>2,156</b>	<b>2,023</b>

## (22) Payroll costs

€ millions	2007	2006
Wages and salaries	380	377
Social security contributions and employee benefits	75	79
Pension costs	18	20
<b>Total</b>	<b>473</b>	<b>476</b>

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

### (23) Employee numbers

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

	2007	2006
Production	4,176	4,222
Research & Development	709	733
Sales & Marketing	896	920
Supply Chain/Purchasing	762	761
Administration	1,095	1,094
<b>Total</b>	<b>7,638</b>	<b>7,730</b>

## Notes to the Consolidated Cash Flow Statement

### (24) Acquisitions

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

In 2006, Cognis acquired 100% of the shares in the Cosmetic Rheologies group, UK, for €12 million, and 100% of the shares in Napro Pharma AS, a Norwegian company manufacturing high-quality Omega-3 fish oils for the nutrition industry, for €35 million.

### (25) Divestments and disposals of fixed assets

In November 2007, Cognis signed an agreement to sell our G-Cure® business.

The G-Cure® product line was part of the Functional Products business unit of Cognis. Mainly focused on the NAFTA region, the G-Cure® business generated net sales of approximately €10 million in 2006.

The selling price for the G-Cure® business was €7 million. The divestment did not have a material effect as of the transaction date on the consolidated balance sheet.

Cash flows from disposals to fixed assets relate mainly to the disposal of land. The disposals in 2007 had the following effects:

€ millions	2007
Net assets disposed of	6
Net gains/(losses) on divestments and disposals	6
<b>Total proceeds from divestments and disposals</b>	<b>12</b>

In 2006, cash flows from "Divestments and disposals of fixed assets" related mainly to the divestment of an investment in Turkey and the disposal of fixed assets, in particular the sale of a site in the USA.

### (26) Pension payments net of service costs

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

Cash payments in respect of pensions in 2007 comprised payments to beneficiaries of €27 million (2006: €28 million) and €13 million (2006: €13 million) contributions to pension funds, mainly in the USA, UK, Ireland and Canada. Included in these contributions to pension funds are €8 million (2006: €8 million) in respect of plans in the USA.

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

€ millions	As of December 31,	2007	2006
Payments to beneficiaries made by the Group		(27)	(28)
Contributions to pension funds		(13)	(13)
<b>Total payments</b>		<b>(40)</b>	<b>(41)</b>
Pension costs included in operating profit		14	-
<b>Pension payments net of service cost</b>		<b>(26)</b>	<b>(41)</b>

## Supplementary Information

### (27) 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,	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 <sup>1)</sup>		101	–	53	–	–	–	48
Cash and cash equivalents		132	132	–	–	–	–	–
<b>Total</b>		<b>808</b>	<b>132</b>	<b>619</b>	<b>7</b>	<b>2</b>	<b>–</b>	<b>48</b>

<sup>1)</sup> Including receivable from Cognis Holding GmbH.

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

€ millions	As of December 31,	2006						
		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	537	-	537	-	-	-	-	-
Derivative financial instruments	13	-	-	6	-	7	-	-
Other assets	60	-	21	-	-	-	-	39
Cash and cash equivalents	233	233	-	-	-	-	-	-
<b>Total</b>	<b>845</b>	<b>233</b>	<b>558</b>	<b>6</b>	<b>2</b>	<b>7</b>	<b>7</b>	<b>39</b>

€ millions	As of December 31,	2006					
		Book value	Financial liabilities at amortized cost	Trading	Hedging	Leasing	Outside scope of IFRS 7
Borrowings	1,704	1,671	-	-	33	-	-
Trade payables	333	333	-	-	-	-	-
Derivative financial instruments	7	-	7	-	-	-	-
Other liabilities	62	13	-	-	-	-	49
<b>Total</b>	<b>2,106</b>	<b>2,017</b>	<b>7</b>	<b>-</b>	<b>33</b>	<b>33</b>	<b>49</b>

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	2007	2006
<b>Loans and receivables</b>		
Impairment losses	(4)	(5)
Reversals of impairment losses	1	1
Net gains/(losses) on loans and receivables	(3)	(4)
<b>Available-for-sale financial assets</b>		
Net gains/(losses) on disposal	-	2
<b>Derivative financial instruments classified as held for trading</b>		
Net gains/(losses) on derivative financial instruments classified as held for trading	(3)	(3)

In 2006, net gains on available-for-sale financial assets related to a disposal gain of an equity investment (see also Note 3 "Investments in affiliates and other investments" and Note 25 "Divestments and disposals of fixed assets").

As in the financial year 2006, net losses on trading financial instruments in 2007 related substantially to derivatives not qualifying as effective cash flow hedges or fair value hedges.

Net losses from derivatives held for trading include currency translation effects.

### 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, 2007		December 31, 2006	
	Assets	Liabilities	Assets	Liabilities
Interest derivatives				
- Cash flow hedges	-	4	7	-
- Held for trading	7	-	-	-
Foreign exchange derivatives				
- Held for trading	-	-	6	(7)
<b>Total</b>	<b>7</b>	<b>4</b>	<b>13</b>	<b>(7)</b>

In 2007, the previous interest 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 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 also exposed to transaction currency effects because we generate a significant portion of our sales in US dollars and other non-euro currencies while having a large part of our production and cost base in Germany and other euro region countries.

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 2006, Cognis hedged expected 2007 US dollar operating transaction exposures using foreign currency derivative instruments. These hedged highly probable forecast transactions denominated in foreign currency were expected to occur at various dates within 12 months from the balance sheet date. Unrealized losses on such hedging instruments were not material in 2006 and therefore did not materially affect equity. Cumulative gains transferred from the IAS 39 reserve to other operating income were nil in 2007 (2006: nil). It was anticipated that the purchased materials would be converted into inventory and sold within 12 months from the balance sheet date. No deferred tax effects were recognized in equity with respect to these cash flow hedges in 2007 and 2006.

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 dollars and Thai baht, 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 €3 million in 2007 (2006: €3 million).

The notional principal amounts of the outstanding forward foreign exchange contracts at December 31, 2007 were €92 million (2006: €222 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. Losses of €1 million were recognized on these cross-currency swaps in 2007 (2006: losses of €5 million). These swaps were settled as part of the refinancing process in May 2007.

As of December 31, 2007, foreign exchange derivative financial instruments were substantially comprised of the following:

€ millions	EUR to receive	
	Nominal contract amount	Average contractual FX rate
Currency		
Norwegian crown	32	7.99
Japanese yen	10	162.25
US dollar	6	1.44
Australian dollar	5	1.68
British pound	3	0.73
Canadian dollar	2	1.46
South African rand	1	10.03
Hong Kong dollar	0	11.47
Malaysian ringgit	0	4.73

€ millions	EUR to pay	
	Nominal contract amount	Average contractual FX rate
Currency		
British pound	(10)	0.73
Japanese yen	(1)	166.16

US\$ millions	USD to receive	
	Nominal contract amount	Average contractual FX rate
Currency		
Malaysian ringgit	21	3.28
Indonesian rupee	2	13,872.59

US\$ millions	USD to pay	
	Nominal contract amount	Average contractual FX rate
Currency		
British pound	(1)	2.08

### Foreign currency sensitivity

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

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, 2007, 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 €13 million (2006: €10 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 €11 million (2006: €8 million) higher. The higher foreign currency exchange rate sensitivity in profit in 2007 compared with 2006 is attributable to the cross currency swaps which were settled in 2007. The IAS 39 reserve would not have been affected materially in 2007 if the US dollar had weakened or strengthened by 10% against all other currencies. In 2006, the IAS 39 reserve would have been €2 million higher after taxes if the US dollar had strengthened by 10% against all other currencies and would not have been affected materially if the US dollar had weakened by 10% against all other currencies. This asymmetric effect was due to the use of foreign currency options designated as cash flow hedges.

As of December 31, 2007, 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 €8 million (2006: €6 million) lower. 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 €7 million (2006: €5 million) higher. The higher foreign

currency exchange rate sensitivity in profit in 2007 compared to 2006 is attributable to an increase in net financial liabilities denominated in euro. The IAS 39 reserve would not have been affected.

As of December 31, 2007, 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 have been €5 million (2006: €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 have been €4 million (2006: €4 million) lower. The foreign currency exchange rate sensitivity in profit in 2007 remained on the level of 2006. The IAS 39 reserve would not have been affected.

As of December 31, 2007, if the Japanese yen had weakened/strengthened by 10% against all other currencies with all other variables held constant, post-tax profit for the year and the IAS 39 reserve would not have been affected materially. The same applies for the year 2006.

### 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 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 losses amounting to €3 million (2006: gains of €12 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 2007, fair value gains totaling €8 million (2006: losses of €4 million) were transferred from the IAS 39 equity reserve to the income statement in 2007.

This gain resulted mainly from the Refinancing Transaction in May 2007. The interest 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. Positive deferred tax effects of €4 million (2006: negative €6 million) were recognized in equity.

Interest derivatives are comprised as follows:

Notional amount for next payment after December 31 (in millions)					Maturity	Interest to receive (3-month rates)	Interest to pay
2007	2008	2009	2010	2011			
<b>Interest swaps</b>							
€ 120	€ 120	€ 80	€ 80	Expired	Jun. 15, 2011	Euribor	3.6700%
€ 120	€ 120	€ 80	€ 80	Expired	Jun. 15, 2011	Euribor	3.6900%
€ 60	€ 60	€ 40	€ 40	Expired	Jun. 15, 2011	Euribor	3.6775%
US\$ 125	US\$ 125	US\$ 125	Expired	Expired	Jun. 15, 2010	US-Libor	4.5150%
€ 367	Expired	Expired	Expired	Expired	Dec. 15, 2008	Euribor	4.5260%
US\$ 240	Expired	Expired	Expired	Expired	Dec. 15, 2008	US-Libor	5.3350%
<b>Interest collar</b>							
€ 240	€ 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%
<b>Interest caps</b>							
US\$ 50	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	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 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 derivatives which were effective at December 31, 2007 were €1,223 million (2006: €962 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, 2007, 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 (2006: €8 million) lower, mainly as a result of an increase in variable rate borrowings which would be partially compensated by fair value increases of interest derivatives which do not qualify as effective cash flow hedges. The lower sensitivity in profit regarding interest rate increases compared with 2006 is mainly due to increases in fair values of interest derivatives which do not qualify as effective cash flow hedges. 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 (2006: €8 million) higher. The lower interest rate sensitivity in profit in 2007 compared with 2006 regarding interest rate decreases is mainly attributable to decreases in fair values of interest derivatives which do not qualify as effective cash flow hedges.

The IAS 39 reserve would have been €7 million (2006: €9 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 €3 million (2006: €7 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. The lower interest rate sensitivity in equity in 2007 compared with 2006 is mainly attributable to the existing interest derivatives which did no longer qualify as effective cash flow hedges. The IAS 39 reserve is more sensitive to interest rate increases than decreases because of the use of interest rate options such as collars or caps.

### Credit risk

Credit risk is the risk of loss arising from a customer's or counterparty's inability to meet its obligation. 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 7% 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.

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 2007, we generated approximately 7% (2006: 7%) of our revenues with our largest customer. Cognis' other customers each accounted for less than 5% (2006: 3%) of revenues. The ten largest customers accounted for about 23% (2006: 20%) 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.



**(28) Contingent liabilities**

Guarantees and warranties issued were nil as of December 31, 2007 (2006: nil).

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, 2007, to December 31, 2007, 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 Catstyecam Limited, Dublin. As of the balance sheet date, the liabilities guaranteed total €6 million (2006: €7 million).

**(29) Other financial commitments**

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

€ millions	As of December 31,	2007	2006
Payment obligations under rent, leasehold and leasing agreements		79	45
– of which due in the following year		20	17
– in the 2nd year		14	11
– in the 3rd year		10	9
– in the 4th year		4	3
– in the 5th year		3	2
– in the 6th year or later		28	3
Orders for property, plant and equipment		15	12
<b>Total</b>		<b>94</b>	<b>57</b>

Cognis' commitments to purchase intangible assets were nil as of December 31, 2007 (2006: nil). Other contractual obligations include a long-term purchasing contract valued at €151 million (2006: €144 million) with a contract term to 2017, and other purchasing contracts for inventories valued at €120 million (2006: €107 million).

For finance lease obligations, see Note 10 "Borrowings".

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

Total compensation to Management Board Members comprises short-term employee benefits in the amount of €4,026 thousand (2006: €3,369 thousand) and post-employment benefits amounting to €1,601 thousand (2006: €1,015 thousand).

Compensation to former Management Board members amounted to €508 thousand (2006: €598 thousand).

Pension provisions of €17,347 thousand (2006: €18,096 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 €93 thousand (2006: €95 thousand).

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

**(31) Auditor fees**

In 2007, income reflects the following fees, including the reimbursement of expenses, incurred with respect to Cognis' auditor KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, Germany, and its affiliated companies:

€ millions	Cognis GmbH Group
Year-end financial statements audit	0.9
Other attestation and valuation services	1.1
Tax services	–
Other services	–
<b>Total</b>	<b>2.0</b>

### **(32) 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 May 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 the Supervisory Board through the partnerships Cognis Management Beteiligungs GbR, Cognis Management Beteiligungs GbR II, III and IV (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 €2,413 thousand (5.4%).

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. The shares were issued in exchange for cash, the issuance price being in line with fair value. The fair value was calculated using the discounted cash flow method.

#### **Transactions with other related parties**

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

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 €351 million (2006: €114 million) and foreign currency derivative instruments having a total notional value of €11 million (2006: €45 million);
- provide financial advisory services (together with Permira) to Cognis, together earning fees amounting to €3 million (2006: €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.

For transactions with joint ventures, see Note 34 "Joint ventures".

**(33) Principal subsidiary companies**

	As of December 31,	2007	2006
Company	Domicile	% share of capital	
Cognis GmbH	Monheim (Germany)	100	100
Cognis Oleochemicals GmbH	Düsseldorf (Germany)	50	50
Cognis IP Management GmbH	Düsseldorf (Germany)	100	100
Cognis Corporation	Cincinnati (USA)	100	100
Cognis France S.A.S.	Saint-Fargeau Ponthierry (France)	100	100
Cognis Iberia S.A.U.	Barcelona (Spain)	100	100
Cognis S.p.A.	Fino Mornasco (Italy)	100	100
Cognis Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	100	100
Cognis Brasil Ltda.	São Paulo (Brazil)	100	100
Cognis Japan Ltd.	Tokyo (Japan)	100	100
Cognis Oleochemicals (M) Sdn. Bhd.	Selangor (Malaysia)	50	50
Cognis Chemicals (China) Co. Ltd.	Shanghai (China)	100	100
Cognis Mexico S.A. de C.V.	Ecatepec de Morelos (Mexico)	100	100
Cognis UK Ltd.	Southampton (UK)	100	100
Cognis Ireland Ltd.	Cork (Ireland)	100	100
Cognis B.V.	Hoofddorp (Netherlands)	100	100
Cognis Thai Ltd.	Bangkok (Thailand)	100	100

**(34) Joint ventures**

	As of December 31,	2007	2006
Company	Domicile	% share of capital	
Thai Ethoxylate Company Ltd.	Bangkok (Thailand)	50	50
Thai Fatty Alcohols Company Ltd.	Bangkok (Thailand)	50	50

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

€ millions	As of December 31,	2007	2006
Current assets		7	3
Non-current assets		12	7
Current liabilities		6	1
Non-current liabilities		6	3

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

### Transactions with joint ventures

Transactions with Thai Ethoxylate Company Ltd. predominantly comprise sales. In 2007, sales from joint ventures to Group companies were €26 million (2006: €6 million), while sales to joint ventures amounted to €5 million (2006: €4 million). As of December 31, 2007, trade receivables of the joint ventures to

Group companies were €4 million (2006: €5 million) and trade payables were €1 million (2006: €4 million).

Revenues recognized in 2007 arising from other contracts with joint ventures were not material (2006: revenues of €1 million, serving to offset costs incurred).

Monheim, March 18, 2008



Dr. Antonio Trius  
Chief Executive Officer



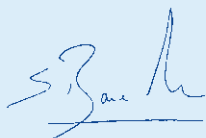
Dr. Helmut Heymann  
Executive Vice President  
Chief Administration Officer



Klaus Edelmann  
Executive Vice President  
Chief Financial Officer



Paul Allen  
Executive Vice President  
Functional Products



Stéphane Baseden  
Executive Vice President  
Nutrition & Health



Richard Ridinger  
Executive Vice President  
Care Chemicals

# 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, 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors Germany] (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group

management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosure in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

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

Düsseldorf, March 18, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. Markus Uhde  
Wirtschaftsprüfer

Guido Bomanns  
Wirtschaftsprüfer

# Supervisory Board and Corporate Management

Supervisory Board of Cognis GmbH implemented on September 19/20, 2007

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 <sup>1) 3) 4)</sup>

Director, Cognis Holding Luxembourg S.à r.l.  
*Lohmann GmbH & Co. KG, Neuwied*  
*Odenwald Faserplattenwerk GmbH, Amorbach*  
*Sartorius AG, Göttingen*  
*TÜV Rheinland Berlin Brandenburg Pfalz e.V., Cologne*

## **Thomas Fischer**

Vice Chairman, Düsseldorf <sup>2) 3) 4) 5)</sup>

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 <sup>1) 3) 4) 5)</sup>

Former CEO of Degussa Hüls AG  
*UBS Deutschland, Frankfurt a.M.*  
*Air Liquide GmbH, Düsseldorf*  
*Altana AG, Bad Homburg v.d.H. (until May 2007)*  
*Akzo Nobel N.V., Amsterdam, Netherlands*  
*Solvay S.A., Brussels, Belgium*  
*Umicore S.A., Brussels, Belgium*

## **Rolf Erler**

Düsseldorf <sup>2) 5)</sup>

Full-time Head of District, Industriegewerkschaft Bergbau, Chemie, Energie  
*3M Deutschland GmbH, Neuss*  
*(from December 2007)*

## **Dr. Bernhard Gutsche**

Düsseldorf <sup>2)</sup>

Director ED Process Development, Cognis GmbH

## **Thomas Hergarten**

Düsseldorf <sup>2)</sup>

Chairman of the Workers' Council of Cognis GmbH, Düsseldorf site

Vice Chairman of the Workers' Council of Cognis Europe

## **Björn Killmer**

London/United Kingdom <sup>1)</sup>

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

## **Udo Stark**

Munich <sup>1) 5)</sup>

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

## **Peter Antoszewski**

Bad Münders <sup>2)</sup>

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

## **Sonnhild Dannowski**

Illertissen <sup>2) 3)</sup>

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

## **Séverine Michel**

Luxembourg <sup>1)</sup>

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

## **John Cheesmond**

Basel, Switzerland <sup>1)</sup>

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

<sup>1)</sup> Owners' Representative

<sup>2)</sup> Employees' Representative

<sup>3)</sup> Member of Codetermination Committee pursuant to German legislation § 27 (3) MitbestG

<sup>4)</sup> Member of Human Resources and Compensation Committee

<sup>5)</sup> Member of Audit Committee

Supervisory Board of Cognis Verwaltungs-GmbH until merger with Cognis GmbH on July 9, 2007

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

**Dr. Harald Wulff**

Chairman, Düsseldorf <sup>1) 3) 4) 5)</sup>  
Former CEO of Cognis

**Dr. Bernhard Gutsche**

Düsseldorf <sup>2)</sup>  
Director ED Process Development,  
Cognis Deutschland GmbH & Co. KG

**Gertraud Lauber**

(until February 15, 2007)  
Frankfurt am Main <sup>2)</sup>  
Full-time Head of District, Industriegewerkschaft Bergbau, Chemie, Energie  
*Sanofi-Aventis Deutschland GmbH*

**Thomas Fischer**

Vice Chairman, Düsseldorf <sup>2) 3) 4) 5)</sup>  
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 Deutschland GmbH & Co. KG,  
Düsseldorf site

**Thomas Hergarten**

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

**Sonnhild Dannowski**

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

**Dr. Uwe-Ernst Bufe**

Königsstein <sup>1) 3)</sup>  
Former CEO of Degussa Hüls AG  
*UBS Deutschland, Frankfurt a.M.*  
*Air Liquide GmbH, Düsseldorf*  
*Altana AG, Bad Homburg v.d.H. (until May 2007)*  
*Akzo Nobel N.V., Amsterdam, Netherlands*  
*Solvay S.A., Brussels, Belgium*  
*Umicore S.A., Brussels, Belgium*

**Björn Killmer**

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

**Séverine Michel**

Luxembourg <sup>1)</sup>  
Director, Cognis Holding Luxembourg S.à r.l.  
Manager, Permira Luxembourg S.à r.l.  
*debitel AG, Stuttgart*

**Rolf Erler**

Düsseldorf <sup>2)</sup>  
Full-time Head of District, Industriegewerkschaft Bergbau, Chemie, Energie  
*Rockwood Specialities Group GmbH, Frankfurt a.M. (until April 2007)*

**Richard Sharp**

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

**John Cheesmond**

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

**Peter Antoszewski**

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

<sup>1)</sup> Owners' Representative

<sup>2)</sup> Employees' Representative

<sup>3)</sup> Member of Codetermination Committee pursuant to German legislation § 27 (3) MitbestG

<sup>4)</sup> Member of Human Resources and Compensation Committee

<sup>5)</sup> Member of Audit Committee

## Cognis GmbH Management Board

### **Dr. Antonio Trius**

Chief Executive Officer

### **Dr. Helmut Heymann**

Executive Vice President  
Chief Administration Officer

### **Klaus Edelmann**

Executive Vice President  
Chief Financial Officer

### **Paul Allen**

Executive Vice President  
Functional Products

### **Stéphane Baseden**

Executive Vice President  
Nutrition & Health

### **Richard Ridinger**

Executive Vice President  
Care Chemicals

## Cognis Executive Council

### **Dr. Yusuf Aktalay**

Group Vice President  
Process Chemicals  
(until June 30, 2007)  
Chief Executive Officer  
Pulcra Chemicals  
(from July 1, 2007)

### **Dr. Jürgen Scherer**

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

### **Dr. Carl Braun**

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

### **Dr. Christoph Breucker**

Group Vice President  
Operations, Product Management  
Functional Products & Functional  
Products Europe

### **Dr. Levent Yüksel**

Group Vice President  
Care Surfactants & Alcohols  
Global Operations Management

### **Bernhard Vogtland**

Group Vice President  
Corporate Finance, Tax and Investor  
Relations

### **Dr. Alfred Meffert**

Group Vice President  
Corporate Operations  
(until September 30, 2007)

# 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, March 18, 2008



Dr. Antonio Trius  
Chief Executive Officer



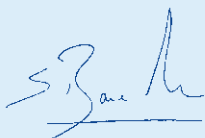
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Chief Administration Officer



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