INDUSTRIAL GROUP
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INDUSTRIAL GROUP
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE CONSOLIDATED FINANCIAL STATEMENTS

General

The consolidated financial statements of Industrial Group (the “Group”), as from January 1, 2005, have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements as prepared by the Board of Management and as presented in this report are subject to approval by the General Meeting of Shareholders.

The accounting policies as set out below have been applied in preparing the financial statements for the year ended December 31, 2005, the comparative information presented in these financial statements for the year ended December 31, 2004 and in the preparation of the IFRS opening balance sheet at January 1, 2004 (the date of transition to IFRS), with the exception of IAS 32 and 39 for financial instruments, which have been applied prospectively as from January 1, 2005. An explanation on how the transition to IFRS has affected the reporting is provided in Note 24.

Consolidation

The consolidated financial statements include the accounts of Industrial Group and its subsidiaries. Subsidiaries are companies over which the Group directly and/or indirectly has control. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Minority interest in equity and earnings is shown separately. Transactions between consolidated companies are eliminated.

Valuation

The principles of valuation and determination of income used in the consolidated financial statements are based on historical costs, unless stated otherwise in the principles of valuation of assets and liabilities.

Translation of Foreign Currencies

In the balance sheet, amounts in foreign currencies are translated into euros at year-end exchange rates. Foreign exchange differences are included in income.

Statements of income in foreign currencies are translated into euros at average exchange rates. Foreign exchange differences resulting from translation into euros of shareholders’ equities and of intercompany loans of a permanent nature with respect to subsidiaries outside the euro region are recorded as a separate component within shareholders’ equity. Upon disposal or liquidation of a foreign entity these cumulative translation adjustments are recognized as income or expense.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

Before being consolidated, the financial statements of subsidiaries established in hyperinflationary countries are adjusted for the effects of changing prices.

Principles of Valuation of Assets and Liabilities

Property, Plant and Equipment

Property, plant and equipment are valued at cost less accumulated depreciation and impairment charges. Costs include the financing charges of capital investment projects under construction.

Government grants to compensate for the cost of an asset are deducted from the cost of the related asset.

Depreciation is computed by the straight-line method based on the estimated useful life. In the majority of cases the useful life of plant equipment and machinery is 10 years, and for buildings ranges from 20 to 30 years. Land is not depreciated. Residual value is in the majority of cases assumed to be insignificant. In cases where the book value so computed exceeds the recoverable amount an impairment charge is recognized in income.

Depreciation methods, useful lives and residual values are reassessed annually.

Gains and losses on the sale of property, plant and equipment are included in income.

Parts of property, plant and equipment that have different useful lives are accounted for as separate items of property, plant and equipment.

Cost of major maintenance activities are capitalized as a separate component of property, plant and equipment, and depreciated over the estimated useful life. Maintenance costs which cannot be separately defined as a component of property, plant and equipment are expensed in the period in which they occur.

Financial leases at inception are recognized in the balance sheet at the lower of the assets’ fair value or the present value of the minimum lease payments, and are amortized on a straight-line basis over the shorter of the lease-term or the useful life of the asset. If the book value so computed exceeds the recoverable amount of the assets an impairment charge is recognized. Operational leases are not capitalized. Costs related to these contracts are expensed ratably over the term of the lease.

Intangible Assets

Intangible assets with a finite life, such as licenses, know-how and intellectual property rights, are capitalized at historic cost and amortized on a straight-line basis over the estimated useful life, which in the majority of cases ranges from 10 to 15 years. Development costs are capitalized if it is probable that sufficient future economic benefits will be generated by the intangible asset arising from development, and amortized on a straight-line basis over the estimated useful life, which in the majority of cases is 5 years. In cases where the book value so computed exceeds the recoverable amount an impairment charge is recognized in income.

Intangible assets with an indefinite life, which presently only include purchased goodwill, are not amortized, but tested for impairment annually. In cases where the book value of the intangibles exceeds the recoverable amount an impairment charge is recognized in income. Goodwill is determined as the difference between the fair value of the consideration paid for new interests and the fair value of the purchased net assets at the date of acquisition. Goodwill related to a nonconsolidated company is included in the carrying amount of that nonconsolidated company.

Financial Noncurrent Assets

Interests in companies where the Group can exercise significant influence but not control, are treated as nonconsolidated companies and are stated at the amount of the Group's share in shareholders' equity from the date that significant influence commences until the date that significant influence ceases. The calculation of shareholders' equity is based as much as possible on the principles of valuation. When the share of losses exceeds the interest in the company, the carrying amount is reduced to nil and recognition of further losses is discontinued, unless the Group has incurred legal or constructive obligations on behalf of the company.

Jointly controlled companies are equity accounted for as nonconsolidated companies.

Unrealized gains arising from transactions with nonconsolidated companies are eliminated to the extent of The Group's interest in the company and are eliminated against the investment in the nonconsolidated company. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Loans to nonconsolidated companies are carried at amortized cost less impairment losses.

For the valuation of deferred tax assets, see Deferred Taxes.

Other financial noncurrent assets classified as held to maturity are recognized at amortized cost less impairment losses, while other financial noncurrent assets classified as available for sale are stated at fair value, with gains and losses resulting from changes in the fair value recognized directly in equity and impairment losses recognized in the statement of income. Upon derecognition of financial noncurrent assets classified as available for sale, the cumulative gain or loss previously recognized directly in equity is recognized in the statement of income.

Inventories

Inventories are stated at the lower of cost or net realizable value. Costs of inventories comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. The costs of conversion of inventories include direct labor and fixed and variable production overheads, and takes into account the stage of completion. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Receivables

Trade and other receivables are stated at their cost less impairment losses. Long-term receivables are discounted to their net present value.

Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term highly liquid investments that are directly convertible into known amounts of cash. These are stated at fair value.

Assets and Liabilities Classified as Held for Sale

Assets and liabilities are classified as held for sale if it is highly probable that the carrying amount will be recovered through a sale transaction rather than through continuing use. When reclassifying assets as held for sale, the assets are recognized at the lower of the carrying amount or fair value less selling costs. Assets held for sale are not depreciated but tested for impairment. Impairment losses on assets and liabilities held for sale are recognized in the statement of income.

Shareholders' Equity

The consideration paid for repurchased shares, including directly attributable cost, is deducted from equity.

Dividends are recognized as a liability in the period in which they are declared.

Provisions

Provisions are recorded when a present legal or constructive obligation as a result of a past event exists, and it is probable that an outflow of economic benefits is required to settle the obligation. Provisions are stated at net present value, taking the timing of cash outflows into account. The expected future cash outflows are discounted at appropriate pre-tax interest rates, reflecting current market assessments of the time value of money and, if applicable, the risks specific to the liability. The increase of provisions as a result of the passage of time is recognized in the statement of income under Financing Charges.

Provisions for restructuring are recognized when a detailed and formal restructuring plan has been approved, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Pensions and Other Postretirement Benefits

Defined Contribution Plans

Obligations for contributions to defined contribution plans are recognized in the statement of income as incurred.

Defined Benefit Plans

Most of the Group's defined benefit pension plans are funded with plan assets that have been segregated in a trust or foundation. For plans which are not separately funded, the Group recognizes a provision. Valuations of both funded and unfunded plans are carried out by independent actuaries based on the projected unit credit method. Pension costs primarily represent the increase in the actuarial present value of the obligation for projected pension benefits based on employee service during the year and the interest on this obligation in respect of employee service in previous years, net of the expected return on plan assets.

In certain countries the Group also provides postretirement benefits other than pensions to its employees. These plans are generally not funded. Valuations of the obligations under these plans are carried out by independent actuaries based on the projected unit credit method. The costs relating to such plans primarily consist of the present value of the benefits attributed on an equal basis to each year of service and the interest on this obligation in respect of employee service in previous years.

Actuarial gains and losses that arise after January 1, 2004, in calculating the Group's obligation in respect of a plan, are recognized to the extent that any cumulative unrecognized actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets. That portion is recognized in the statement of income over the expected average remaining working lives of the employees participating in the plan. Otherwise, actuarial gains or losses are not recognized.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the statement of income on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the statement of income.

Other Long-Term Employee Benefits

Other long-term employee benefits include long-service or sabbatical leave, jubilee or other long-service benefits and other employee benefits payable more than 12 months after the related service rendered. These provisions are stated at present value.

Deferred Taxes

Deferred tax assets and liabilities are based on temporary differences between the valuation of assets and liabilities for accounting purposes and the valuation for tax purposes. Measurement of deferred tax assets and liabilities is based upon the enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those timing differences are expected to be reversed. Deferred taxes are not discounted. The tax effect on the elimination of intercompany profit in inventories is based on the tax rate of the country of the subsidiary receiving the goods.

Deferred tax assets, including assets arising from losses carried forward, are recognized if it is probable that the asset will be realized. Nonrefundable dividend taxes are taken into account in the determination of provisions for deferred taxes to the extent of earnings expected to be distributed by affiliated companies. If separate tax rates exist for distributed and undistributed profits, the current and deferred taxes are measured at the tax rate applicable to undistributed profits. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized. Deferred taxes are not provided for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Stock-Based Compensation

The stock option plan allows certain employees of the Group to acquire Group common shares. These options generally vest if the employee stays with the Group during an uninterrupted three-year period. The Group also has a Performance Share Plan, under which shares are conditionally granted to certain employees. The actual number of shares which the employees will receive depends on the employee having stayed with the Group during an uninterrupted three-year period and the Group's Total Shareholder Return (TSR) performance over a three-year period, compared with TSR performance of a specified peer group.

The fair value of the options or performance shares granted is recognized as an employee expense with a corresponding increase in shareholders' equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options or performance shares. The fair value of the options and performance shares granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options and performance shares were granted. For the performance shares this also includes the market conditions expected to impact the Group's TSR performance in relation to the selected peers. The amount recognized as an expense is adjusted to reflect the actual number of options or performance shares that vest, except where forfeiture or extra vesting of performance shares is only due to the actual TSR performance differing from the performance anticipated at the grant of the performance shares.

Long-Term Borrowings and Short-Term Debt

Long-term borrowings are stated at amortized cost, applying the effective interest rate method unless fair value interest rate hedging is applied. In that case a synthetic bond is presented, which is measured at fair value, as an adjustment of the underlying bond which is stated at amortized cost. Short-term debt is stated at fair value.

Trade and Other Payables

Trade and other payables are stated at fair value.

Derivative Financial Instruments

Derivative financial instruments include forward exchange contracts, interest rate derivatives and commodity contracts, as well as embedded derivatives included in normal business contracts.

2005

Forward exchange and commodity contracts are measured at fair value in the balance sheet, with changes in the fair value recognized in income, unless cash flow hedge accounting is applied. In the latter case, the effective part of the fair value change is deferred in shareholders' equity until the hedged transactions have been reflected in the accounts. The fair values are recognized in the balance sheet under Trade and Other Receivables, or under Trade and Other Payables.

For the interest rate derivates the Group in principle applies fair value hedge accounting. The changes in fair value are recognized in the statement of income, where the effective part is offset by the fair value change of the underlying bond. Such amounts are included in Financing Charges. The fair value of the derivatives is recognized in the balance sheet under Other Financial Noncurrent Assets.

2004

Results on forward exchange contracts are recognized in income to offset the foreign exchange differences on the related hedged items. Exchange differences on anticipatory hedges of firm commitments regarding sales and purchases are deferred on the balance sheet until the hedged transactions have been reflected in the accounts. The capitalized or accrued amounts are included in receivables or current liabilities.

Principles of Determination of Income

The determination of income is closely associated with the valuation of assets and liabilities. In addition, the following principles are observed in the preparation of the statement of income:

Revenues

Revenues are defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts and similar allowances, and net of sales tax. Revenue from sales of goods is recognized when the significant risks and rewards have been transferred to a third party. Service revenues are recognized as services are rendered. No revenue is recognized if there are significant uncertainties regarding the recovery of the consideration due, associated cost, or the possible return of goods, or if management keeps continuing involvement with the goods.

Costs of Sales

Costs of sales comprise the manufacturing costs of the goods sold and delivered, and any inventory write-downs to lower net realizable value. Manufacturing costs include such items as:

– the costs of raw materials and supplies, energy, and other materials;
– depreciation and the costs of maintenance of the assets used in production;
– salaries, wages, and social charges for the personnel involved in manufacturing.

The costs of services and royalties, generally, are included in the functional cost lines, as applicable: Selling Expenses, Research and Development Expenses, or General and Administrative Expenses.

Research Costs and Preparation and Start-up Expenses

Research costs and preparation and start-up expenses are charged to income as incurred.

Government Grants

Government grants related to cost are recognized in the statement of income in the same periods as the related cost to be compensated and are deducted from the relevant cost. For government grants related to assets, see the accounting policy for Property, Plant and Equipment.

Financing Charges

Financing charges comprise the interest payable on borrowings, calculated using the effective interest method. Also the interest expense component of finance lease payments and the increase of provisions as a result of the passage of time are recognized under Financing Charges. Entries in the statement of income related to interest rate derivatives are also recognized under Financing Charges.

Interest income is recognized under Financing Charges, using the effective interest method.

Taxes on Income

Taxes on income comprise both current and deferred taxes, including effects of changes in tax rates.

Income tax is recognized in the statement of income, unless it relates to items recognized directly in equity or deferred tax recognized in a purchase price allocation.

Earnings from Nonconsolidated Companies

Income from nonconsolidated companies consists of The Group's share in earnings of these companies and interest on loans granted to them, with an allowance being made for taxes relating to these items.

Impairments

The carrying amounts of the assets, inventories and deferred tax assets are reviewed at balance sheet date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated. For goodwill and other intangible assets with an indefinite useful life the recoverable amount is estimated at each balance sheet date. The recoverable amount of an asset or its cash generating unit is the greater of the net selling price and the value in use, whereby estimated future cash flows are discounted to their present value.

The discount rate used reflects current market assessments of the time value of money and, if appropriate, the risks specific to the assets.

An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income.

Emission Rights

Emission rights granted by the government are recognized at cost, which is generally nil. A provision is recorded if the actual emission of pollutants is higher than the emission rights received.

Use of Estimates

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements. The estimates and assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances, and are used to judge the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Revisions to accounting estimates are recognized in the period in which the estimate is revised, or in the revision and future periods if the changed estimates affect both current and future periods.

Segment Reporting

The primary segment reporting is based on the business segments of the Group, whereby the business segments are engaged in providing products or services which are subject to risks and rewards which differ from the risks and rewards of the other segments. In determining whether products and services are related, aspects such as the nature of the products or services, the nature of the production processes, and the type or class of customers for the products or services are taken into consideration. Segments reported are Pharmaceutical, Animal Products, Coatings, and Chemicals, which also reflects the management structure of the Group. The secondary segment reporting is based on the geographical areas in which the Group operates, whereby economic environments with comparable risks and returns are grouped together. Intersegment pricing is determined on an arm's length basis.

INDUSTRIAL GROUP
CONSOLIDATED BALANCE SHEETS

Before allocation of profit *Millions of euros, except per share amounts*	**December 31,** 2005	2004
Assets		
Current assets		
Cash and cash equivalents (Note 3)	1,486	1,811
Receivables (Note 4)	2,596	2,400
Accounts receivable from nonconsolidated companies	63	33
Income tax receivable	137	210
Inventories (Note 5)	1,987	1,978
Assets held for sale (Note 6)	322	
Prepaid expenses	114	118
Total current assets	6,705	6,550
Intangible assets (Note 7)	488	448
Property, plant and equipment, net (Note 8)	3,432	3,535
Nonconsolidated companies (Note 9)	301	318
Deferred tax assets (Note 21)	895	794
Other assets	604	306
Total assets	**12,425**	**11,951**
Liabilities and shareholders' equity		
Short-term liabilities		
Short-term borrowings (Note 10)	314	258
Income tax payable	380	468
Current liabilities (Note 11)	2,953	2,707
Payables to nonconsolidated companies	4	2
Current portion of long-term borrowings (Note 12)	43	302
Liabilities held for sale (Note 6)	60	
Total short-term liabilities	3,754	3,737
Long-term borrowings (Note 12)	2,702	2,392
Long-term liabilities (Note 13)	2,393	3,077
Minority interest	161	140
Shareholders' equity (Note 14)		
Priority shares:		
48 shares authorized and outstanding of EUR 400 per share	–	–
Common shares:		
Authorized 600,000,000 shares of EUR 2 per share		
Outstanding at December 31, 2004: 286,147,260 shares		572
Outstanding at December 31, 2005: 286,147,260 shares	572	
Additional paid-in capital	1,803	1,803
Cumulative translation differences	142	(20)
Other reserves	(64)	(694)
Undistributed profits	875	859
Statutory reserves	87	85
Total shareholders' equity	3,415	2,605
Total liabilities and shareholders' equity	**12,425**	**11,951**

See accounting policies and accompanying notes to consolidated financial statements

INDUSTRIAL GROUP
CONSOLIDATED STATEMENT OF INCOME

Millions of euros, except per share amounts	**for the years ended December 31,** 2005	2004
Revenues	13,000	12,833
Cost of sales	(7,066)	(6,825)
Gross margin	5,934	6,008
Selling expenses	(3,297)	(3,254)
Research and development expenses	(834)	(816)
General and administrative expenses	(693)	(674)
IAS 39 fair value adjustments (Note 17)	26	
Incidentals (Note 18):		
- Special benefits	571	84
- Results on divestments	44	579
- Restructuring and impairment charges	(169)	(197)
- Charges related to major legal, antitrust and environmental cases (Note 15)	(112)	(202)
Other operating income/(expenses), net (Note 19)	16	(1)
Operating income	1,486	1,527
Financing charges, net (Note 20)	(156)	(144)
Operating income less net financing charges	1,330	1,383
Income taxes (Note 21)	(336)	(412)
Earnings of consolidated companies less income taxes	994	971
Earnings from nonconsolidated companies (Note 9)	4	10
Earnings before minority interest	998	981
Minority interest	(37)	(36)
Net income	**961**	**945**
Basic earnings per share	**3.36**	**3.31**
Diluted earnings per share	**3.35**	**3.30**

See accounting policies and accompanying notes to consolidated financial statements.

INDUSTRIAL GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS

Millions of euros	2005		2004	
Profit for the period	998		981	
Adjustments to reconcile earnings to cash generated from operating activities:				
Depreciation and amortization	569		565	
Impairment losses	132		74	
Financing charges	156		144	
Earnings from nonconsolidated companies	(17)		(52)	
Taxes recognized in income	338		415	
Operating profit before changes in working capital and provisions		2,176		2,127
Changes in trade and other receivables	(169)		(163)	
Changes in inventories	38		(23)	
Changes in trade and other payables	(117)		154	
Changes in provisions	(598)		(63)	
Other	28		(4)	
		(818)		(99)
Cash generated from operating activities		1,358		2,028
Interest paid	(145)		(139)	
Income taxes (paid)/received	(391)		(217)	
Pretax gain on divestments	(44)		(579)	
		(580)		(935)
Net cash from operating activities		778		1,093
Capital expenditures	(514)		(551)	
Investments in intangible assets	(67)		(28)	
Interest received	34		21	
Repayments from nonconsolidated companies	27		11	
Dividends received	19		123	
Acquisition of consolidated companies[1]	(55)		(80)	
Proceeds from sale of interests[1]	64		1,036	
Loan and prepaid premiums to APF[2]	(150)			
Other changes in noncurrent assets	53		2	
Net cash from investing activities		(589)		534
New long-term borrowings	3		22	
Repayment of borrowings	(269)		(191)	
Termination of currency swap	78			
Dividends	(366)		(366)	
Net cash from financing activities		(554)		(535)
Net change in cash and cash equivalents		(365)		1,092
Cash and cash equivalents at January 1		1,811		727
Effect of exchange rate changes on cash and cash equivalents and impact of IAS 32/39		40		(8)
Cash and cash equivalents at December 31		1,486		1,811

[1] Net of cash acquired or disposed of.

[2] The Group Pension Fund in the Netherlands.

INDUSTRIAL GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Millions of euros	Subscr. share capital	Addit. paid-in capital	Change in fair value of derivatives	Other statutory reserves	Cumulative translation reserves	Other reserves and un-distributed profits	Shareholders equity	Minority interest	Total equity
	Attributable to equity holders of the parent								
			Statutory reserves						
Balance at January 1, 2004	572	1,803		85		(435)	2,025	140	2,165
Equity settled transactions						(2)	(2)		(2)
Changes in exchange rates in respect of affiliated companies					(20)		(20)	(4)	(24)
Income directly recognized in equity					(20)	(2)	(22)	(4)	(26)
Net income						945	945	36	981
Total income/(expenses)					(20)	943	923	32	955
Dividend paid						(343)	(343)	(23)	(366)
Change minority interests in subsidiaries								(9)	(9)
Capitalized development cost				–			–		–
Balance at December 31, 2004	572	1,803		85	(20)	165	2,605	140	2,745
Implementation IAS 32 and 39			(9)				(9)		(9)
Equity settled transactions						28	28		28
Changes in fair value of derivatives			11				11		11
Changes in exchange rates in respect of affiliated companies					162		162	16	178
Income directly recognized in equity			2		162	28	192	16	208
Net income						961	961	37	998
Total income/(expenses)			2		162	989	1,153	53	1,206
Dividend paid						(343)	(343)	(23)	(366)
Change minority interests in subsidiaries								(9)	(9)
Capitalized development cost				–			–		–
Balance at December 31, 2005	572	1,803	2	85	142	811	3,415	161	3,576

INDUSTRIAL GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) Industry Segment Information and Geographic Data

Segment information is presented in respect of the Group's business and geographical segments. The primary segment reporting is based on the business segments, which also forms the basis for the Group's management and internal reporting structure. The secondary segment reporting is based on the geographical areas in which the Group operates, whereby segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(a) *Industry Segment Information*

The information presented below illustrates the relative importance of the individual groups.

	Revenues		Operating income	
Millions of euros	2005	2004	2005	2004
Pharmaceutical	2,425	2,344	415	275
Animal Products	1,094	1,027	238	184
Coatings	5,555	5,237	384	406
Chemicals	3,890	4,317	312	869
Miscellaneous products, Intragroup deliveries, non- allocated items and eliminations	36	(92)	137	(207)
Total	**13,000**	**12,833**	**1,486**	**1,527**

	Identifiable assets		Capital expenditures		Depreciation	
Millions of euros	2005	2004	2005	2004	2005	2004
Pharmaceutical	2,262	2,075	95	103	118	118
Animal Products	1,082	968	54	54	40	38
Coatings	3,328	3,094	112	122	126	119
Chemicals	2,946	2,773	252	269	233	262
Miscellaneous products, nonallocated items, and eliminations, including cash and cash equivalents	2,506	2,723	1	3	11	3
	12,124	11,633	514	551	528	540
Nonconsolidated companies	301	318				
Total	**12,425**	**11,951**	**514**	**551**	**528**	**540**

(b) *Geographic Data*

Below geographic information for the Group is presented for revenues, operating income, identifiable assets and expenditures for property, plant and equipment.

Millions of euros	**Revenues by region of destination** 2005	2004	**Revenues by region of origin** 2005	2004	**Operating income** 2005	2004
Domestic	862	844	2,459	2,748	474	446
Germany	1,238	1,165	1,152	1,050	144	159
Sweden	516	509	1,237	1,155	137	33
United Kingdom	809	833	754	848	(59)	(57)
Other European countries	4,075	4,122	3,069	2,921	527	532
USA and Canada	2,400	2,445	2,116	2,221	(67)	60
Latin America	830	729	626	493	85	133
Asia	1,590	1,536	1,231	1,087	192	175
Other regions	680	650	356	310	53	46
Total	**13,000**	**12,833**	**13,000**	**12,833**	**1,486**	**1,527**

Millions of euros	**Identifiable assets** 2005	2004	**Capital expenditures** 2005	2004
Domestic	3,061	2,959	179	189
Germany	750	828	25	23
Sweden	863	847	65	60
United Kingdom	690	582	31	29
Other European countries	2,112	2,163	81	81
USA and Canada	1,959	1,794	51	52
Latin America	619	454	42	61
Asia	1,017	834	32	47
Other regions	329	295	8	9
	11,400	10,756	514	551
Eliminations and cash and cash equivalents	724	877		
Nonconsolidated companies	301	318		
Total	**12,425**	**11,951**	**514**	**551**

(2) Acquisitions and Dispositions

In February 2005, the Group announced it would focus its Chemicals portfolio on five strategic areas with clear prospects for profitable leadership. As a consequence of the strategic review, businesses with 2004 revenues of around EUR 700 million will be divested. The processes to realize these divestments are on track. The divestment process for a number of these activities is at such a stage that the assets and liabilities thereof qualify as held for sale. See note 6 of these consolidated financial statements.

In September 2003, the Group announced its plan to sell Catalysts, Coating Resins, and Phosphorus Chemicals from its Chemicals portfolio. In 2004 these divestments were completed. Effective July 31, 2004, Catalysts and Phosphorus Chemicals were divested for EUR 616 million and EUR 231 million, respectively, resulting in an after-tax gain of EUR 338 million and EUR 68 million, respectively. In December 2004, Coating Resins was divested for EUR 110 million, resulting in an after-tax gain of EUR 35 million.

In July 2004, Subsidiary 2 was acquired for an amount of EUR 35 million, including EUR 17 million of goodwill.

During 2005 and 2004, the Group acquired several other businesses in strategic markets and geographic areas. Also a number of other activities were divested in 2005 and 2004. None of these were significant to the consolidated financial statements.

All acquisitions were accounted for on the basis of the purchase accounting method.

The acquisitions in 2005 contributed EUR 49 million to revenues. If all acquisitions had occurred on January 1, 2005, additional revenues would have been EUR 84 million. Given their limited size, the acquisitions in 2005 only had a marginal contribution to net income, even if all acquisitions had occurred on January 1, 2005.

The acquisitions in 2005 had (at acquisition date) the following effect on the Group's assets and liabilities:

	Recognized values
Property, plant and equipment	18
Intangible assets	23
Inventories	11
Trade and other receivables	14
Provisions	(4)
Long-term borrowings	(15)
Trade and other payables	(7)
Net identifiable assets and liabilities	40
Goodwill on acquisitions	15
Consideration paid	55
Cash acquired	–
Net cash outflow	55

(3) Cash and Cash Equivalents

Millions of euros	**2005**	**2004**
Cash in banks	342	282
Short-term investments	1,144	1,529
Total	**1,486**	**1,811**

Short-term investments almost entirely consist of cash loans, time deposits, marketable private borrowings, and marketable securities immediately convertible into cash.

At December 31, 2005 and December 31, 2004, the amount of cash and cash equivalents was freely available.

(4) Receivables

Millions of euros	**2005**	**2004**
Trade receivables	2,161	1,971
Non-income taxes	108	125
Fair value derivatives	28	
Other receivables	319	317
	2,616	2,413
Discounted drafts with recourse	(20)	(13)
Total	**2,596**	**2,400**
Allowances for doubtful accounts included as a deduction from receivables	**142**	**157**

(5) Inventories

Millions of euros	**2005**	**2004**
Raw materials and supplies	616	596
Work in process	401	400
Finished products and goods for resale	963	977
Inventory prepayments	7	5
Total	**1,987**	**1,978**
Provisions for obsolescence deducted from inventory book values	**147**	**146**

(6) Assets and Liabilities classified as Held for Sale

In February 2005, the Group announced it would focus its Chemicals portfolio on five strategic areas with clear prospects for profitable leadership. As a consequence of the strategic review, businesses with 2004 revenues of around EUR 700 million will be divested. The process to realize these divestments is on track. The divestment process for a number of these activities is in such a stage that the assets and liabilities thereof qualify as held for sale.

Assets held for sale include the following:

	2005
Property, plant and equipment	164
Inventories	75
Trade and other receivables	83
	322

Liabilities classified as held for sale include the following:

	2005
Trade and other payables	60
	60

The impairment charge for assets held for sale amounted to EUR 16 million.

(7) Intangible Assets

Millions of euros	**Total**	**Goodwill**	**Licenses, know- how, and intellectual property rights**	**Development costs**
Balance at January 1, 2004				
Cost of acquisition through business combinations	598	310	288	
Cost of internally developed intangibles	11			11
Accumulated amortization/impairment	(185)	(58)	(124)	(3)
Book value	424	252	164	8
Changes in book value				
Acquisitions through business combinations	48	47	1	
Other investments - including internally developed	28	–	25	3
Divestitures	(5)	(1)	(4)	
Amortization	(25)		(22)	(3)
Impairments	(14)	(14)		
Change in exchange rates	(8)	(7)	(1)	
Total changes in 2004	24	25	(1)	–
Balance at December 31, 2004				
Cost of acquisition through business combinations	628	342	286	
Cost of internally developed intangibles	13			13
Accumulated amortization/impairment	(193)	(65)	(123)	(5)
Book value	**448**	**277**	**163**	**8**
Changes in book value				
Acquisitions through business combinations	36	13	23	
Other investments – including internally developed	67	5	59	3
Divestitures	(2)	(2)		
Amortization	(41)		(38)	(3)
Impairments	(35)	(21)	(14)	
Change in exchange rates	15	13	2	
Total changes in 2005	40	8	32	–
Balance at December 31, 2005				
Cost of acquisition through business combinations	722	348	374	
Cost of internally developed intangibles	16			16
Accumulated amortization/impairment	(250)	(63)	(179)	(8)
Book value	**488**	**285**	**195**	**8**

For details on the impairment charges reference is made to Note 18.

(8) Property, Plant and Equipment

Millions of euros	**Total**	**Buildings and land**	**Plant equipment and machinery**	**Other equipment**	**Construction in progress and prepayments on projects**	**Assets not used in the production process**
Balance at January 1, 2004						
Cost of acquisition	9,837	2,736	5,692	902	446	61
Accumulated depreciation/impairment	(5,870)	(1,130)	(4,027)	(671)		(42)
Book value	3,967	1,606	1,665	231	446	19
Changes in book value						
Acquisitions through business combinations	8		4	4		
Divestitures	(301)	(90)	(181)	(6)	(24)	
Capital expenditures	551	146	362	75	(34)	2
Transfer between categories		(51)	(3)	(2)	(2)	58
Disinvestments	(32)	(7)	(17)	(3)	(1)	(4)
Depreciation	(540)	(107)	(354)	(78)		(1)
Impairments	(63)	(4)	(20)	(14)		(25)
Changes in exchange rates	(55)	(26)	(23)	(3)	(3)	
Total changes in 2004	(432)	(139)	(232)	(27)	(64)	30
Balance at December 31, 2004						
Cost of acquisition	9,141	2,576	5,186	830	382	167
Accumulated depreciation/impairment	(5,606)	(1,109)	(3,753)	(626)		(118)
Book value	**3,535**	**1,467**	**1,433**	**204**	**382**	**49**
Changes in book value						
Acquisitions through business combinations	18	6	10	2		
Divestitures	(1)		(1)			
Capital expenditures	514	96	365	84	(33)	2
Transfer between categories		(38)	31	62	(54)	(1)
Disinvestments	(13)	(8)	(2)	(1)		(2)
Depreciation	(528)	(105)	(339)	(81)		(3)
Impairments	(97)	(35)	(57)	(3)		(2)
Transfer to noncurrent assets held for sale	(164)	(41)	(74)	(43)	(6)	
Changes in exchange rates	168	72	77	8	9	2
Total changes in 2005	(103)	(53)	10	28	(84)	(4)
Balance at December 31, 2005						
Cost of acquisition	9,419	2,665	5,386	890	298	180
Accumulated depreciation/impairment	(5,987)	(1,251)	(3,943)	(658)		(135)
Book value	**3,432**	**1,414**	**1,443**	**232**	**298**	**45**

The total book value of land at December 31, 2005 was EUR 222 million (at December 31, 2004: EUR 234 million).

The book value of property, plant and equipment financed by installment buying and leasing and not legally owned by the Group was EUR 61 million at December 31, 2005 (at December 31, 2004: EUR 44 million).

For details on the impairment charges reference is made to Note 17.

(9) Nonconsolidated Companies

Millions of euros	**2005**	**2004**
Investments in nonconsolidated companies	285	301
Loans to nonconsolidated companies	16	17
Total	**301**	**318**

Dividends received from nonconsolidated companies in 2005 and 2004 amounted to EUR 19 million and EUR 123 million, respectively.

Earnings from nonconsolidated companies in 2005 include a tax charge of EUR 2 million and in 2004 a tax charge of EUR 4 million.

At December 31, 2005, consolidated retained earnings included EUR 128 million (2004: EUR 132 million) of undistributed earnings from the Group's investments in nonconsolidated companies. Accounts receivable from and payable to nonconsolidated companies are separately presented in the Consolidated Balance Sheet.

Summarized information of nonconsolidated companies on a 100-percent basis follows:

Millions of euros	**2005**	**2004**
Current assets	629	797
Noncurrent assets	1,000	982
Total assets	**1,629**	**1,779**
Current liabilities	537	435
Noncurrent liabilities	480	600
Shareholders' equity	612	744
Total liabilities and equity	**1,629**	**1,779**

Millions of euros	**2005**	**2004**
Revenues	2,500	2,653
Income before tax	74	248
Net income / (loss)	21	214

Certain nonconsolidated companies sell goods and provide services to consolidated Group companies. In addition, consolidated Group companies sell goods and provide services to certain nonconsolidated companies. Such transactions were not significant. Management believes that the terms and pricing of these intersegment transactions are reasonable from a market perspective.

(10) Short-term Borrowings

	Balance at end of year in millions of euros	**Weighted average interest rate at end of year**
Year ended December 31, 2004		
Banks	241	5%
Commercial paper		
Borrowings from nonconsolidated companies	17	2%
Current portion of long-term borrowings	302	
Year ended December 31, 2005		
Banks	298	2%
Commercial paper		
Borrowings from nonconsolidated companies	16	2%
Current portion of long-term borrowings	43	2%

Commercial paper relates to the Group's commercial paper program in the United States, which at December 31, 2005, as at December 31, 2004, had a maximum of USD 1.0 billion (year-end 2005: EUR 0.8 billion; year-end 2004: EUR 0.7 billion), and to the Group's Euro commercial paper program, which at December 31, 2005, as at December 31, 2004, had a maximum of EUR 1.5 billion. At December 31, 2005, and at December 31, 2004, there was no commercial paper outstanding.

(11) Current Liabilities

Millions of euros	**2005**	**2004**
Prepayments by customers	24	17
Payable to suppliers	1,180	1,146
Taxes and social security contributions	153	181
Amounts payable to employees	369	289
Dividends	4	1
Pensions	272	135
Current portion of long-term liabilities related to restructurings	118	121
Current portion of other long-term liabilities	383	249
Fair value derivatives	13	
Other	437	568
Total	**2,953**	**2,707**

(12) Long-term Borrowings

Millions of euros	**2005**	**2004**
Debentures	2,588	2,279
Debt to credit institutions	52	46
Other borrowings	62	67
Total	**2,702**	**2,392**

Debentures and other borrowings can be specified as follows:

Millions of euros		**2005**	**2004**
Debentures			
5.38 %	1998maturing 2008	513	512
5.63 %	2002maturing 2009	1,064	823
4.25 %	2003maturing 2011	791	750
6.44 %	1997maturing 2007 (USD)	86	75
6.54 %	1997maturing 2012 (USD)	120	105
Other debenture loans with various currencies, rates approximately 6% and various maturities		14	14
		2,588	**2,279**
Debt to credit institutions			
Debt with various currencies and various rates		52	46
		52	**46**
Other borrowings			
Borrowings with various currencies, various rates, and various maturities; including capital lease obligations		62	67
		62	**67**

Aggregate maturity is as follows:

Millions of euros	**2005**
2007	109
2008	528
2009	1,088
2010	10
Later	967
Total	2,702

During 2005, the average effective interest rate was 4.2%. The weighted average interest rate in 2004 was 4.9%.

None of the debt to credit institutions and other borrowings have been secured by mortgages etc.

At December 31, 2005, the total amount of long-term credit facilities arranged by the Group was EUR 1.5 billion (at December 31, 2004: EUR 1.5 billion). Neither at the end of 2005 nor at the end of 2004, the facilities were used.

Finance lease liabilities are included under other borrowings. The amounts payable in respect of these finance liabilities are due as follows:

Millions of euros	**Minimum lease payments**	**Interest**	**Principal**
Between 1 and 5 years	20	2	18
More than 5 years	3	–	3
Total	**23**	**2**	**21**

(13) Long-term Liabilities

Millions of euros	**2005**	**2004**
Deferred tax liabilities	156	144
Deferred income	27	56
Pension and other postretirement benefits	1,805	2,359
Restructuring of activities	81	120
Environmental costs	185	205
Other	139	193
Total	**2,393**	**3,077**

Deferred Tax Provisions

For details on the total position for deferred taxes reference is made to Note 21.

Deferred Income

In December 2003, the Group received an initial payment of EUR 88 million from Company P for the co-development and co-marketing agreement. Such payments have been reported as deferred income and recognized as revenue in subsequent years. For this payment, recognition is based on the development costs expected for the (remaining) first part of the development period, currently anticipated to be from 2004 to 2007. At December 31, 2005, the remaining balance of the deferred amount was EUR 27 million.

Provisions for Pensions and Postretirement Benefits other than Pensions

The Group has a number of defined benefit pension plans. The benefits of these plans are based primarily on years of service and employees' compensation. The funding policy for the plans is consistent with local requirements in the countries of establishment.

Obligations under the defined benefit plans are systematically provided for by depositing funds with trustees or separate foundations, under insurance policies, or by balance sheet provisions. Plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate.

The Group also provides certain healthcare and life insurance benefits for most of the Group's retired employees in the United States and, until the end of 2005, in the Netherlands. The Group accrues for the expected costs of providing such postretirement benefits during the years that the employee renders the necessary services.

Valuations of the obligations under the pension and other postretirement plans are carried out by independent actuaries.

During 2005, the Group reached agreement with the unions on a change of its pension plan in the Company's Country, so that, effective December 31, 2005, it changed from a defined benefit plan to a defined contribution plan. In connection with this change, the Group paid a one-time nonrefundable contribution of EUR 151 million, prepaid EUR 50 million of employee premiums, and granted a EUR 100 million subordinated loan, which has a fair value of EUR 87 million. In addition, certain changes were made to the early retirement plan. These changes resulted in a curtailment and settlement of defined benefit obligations of EUR 4,575 million and of plan assets of EUR 4,502 million. All in all, the net pre-tax gain was EUR 114 million, which was recognized as Special Benefit.

Effective December 31, 2005, due to changes in the domestic national healthcare system, the Group also terminated its postretirement healthcare plan in that country, except for a gradually declining transition arrangement until June 30, 2009. Due to this curtailment, the defined benefit obligation decreased by EUR 150 million. The net pre-tax gain on the termination was EUR 169 million, which was recognized as Special Benefit.

Below a table is provided with a summary of the changes in the pension benefit obligation and plan assets for 2005 and 2004.

	Pensions		Other Postretirement benefits	
Millions of euros	**2005**	2004	**2005**	2004
Benefit obligation				
Balance at beginning of year	(8,975)	(8,579)	(514)	(521)
Acquisitions	(4)	5		5
Settlements/curtailments	4,575	166	150	1
Service costs	(209)	(208)	(21)	(22)
Contribution by employees	(32)	(40)		
Interest costs	(437)	(456)	(30)	(32)
Plan amendments		(1)		
Benefits paid	484	472	23	26
Actuarial gains and losses	(747)	(453)	(59)	(1)
Changes in exchange rates	(165)	119	(57)	30
Balance at end of year	(5,510)	(8,975)	(508)	(514)
Plan assets				
Balance at beginning of year	6,781	6,347	–	1
Acquisitions	1	–		
Settlements/curtailments	(4,502)	(75)		
Contribution by employer	397	317		
Contribution by employees	32	40		
Benefits paid	(436)	(416)	–	(1)
Actual return on plan assets	1,197	655	–	–
Changes in exchange rates	126	(87)		
Balance at end of year	3,596	6,781	–	–
Funded status	(1,914)	(2,194)	(508)	(514)
Unrecognized net loss	328	220	89	(3)
Unrecognized prior service costs	1	46	2	9
Medicare receivable			(68)	(53)
Net balances	**(1,585)**	**(1,928)**	**(485)**	**(561)**

The defined benefit obligation breaks down as follows:

	2005	2004
Wholly or partly funded plans	5,207	8,868
Unfunded plans	303	107
	5,510	8,975

At January 1, 2004, the funded status was as follows:

Asset/(liability)	**Pensions**	**Other postretirement benefits**
Defined benefit obligation	(8,579)	(521)
Plan assets	6,347	1
Funded status	(2,232)	(520)

As January 1, 2004 is the transition date for the implementation of IFRS, this information is not available for earlier dates.

The difference between the actual and the expected return on plan assets was a gain of EUR 736 million in 2005, and of EUR 228 million in 2004.

In the United States, the Medicare Prescription Drug Improvement and Modernization Act of 2003 introduced prescription drug benefits for retirees as well as a federal subsidy to sponsors of postretirement healthcare plans, which both began at January 1, 2006. This reimbursement right has been recognized as an asset under Other Financial Noncurrent Assets, measured at fair value. At December 31, 2005, this value was EUR 68 million (December 31, 2004: EUR 53 million).

The 2005 and 2004 net periodic pension costs for the defined benefit pension plans were as follows:

	Pensions		**Other Postretirement benefits**	
Millions of euro	**2005**	2004	**2005**	2004
Service costs for benefits earned during the period	209	208	21	22
Interest costs on projected benefit obligation	437	456	30	32
Expected return on plan assets	(461)	(427)	–	–
Amortization of unrecognized losses	11	13		
Settlement/curtailment loss/(gain)	(132)	(86)	(169)	(5)
Net periodic pension costs	**64**	**164**	**(118)**	**49**

During 2005, the principal defined benefit pension plans covered some 55% of the Group's employees. Due to the changes in the domestic pension plan, for 2006 this will be some 35%. The remaining plans primarily represent defined contribution plans. Expenses for these plans totaled EUR 57 million in 2005 and EUR 41 million in 2004.

The weighted average assumptions underlying the computations were:

	Pensions		**Other Postretirement benefits**	
Percent	**2005**	2004	**2005**	2004
Pension benefit obligation at December 31,				
– discount rate	4.7	4.9	5.5	5.4
– rate of compensation increase	3.9	3.2		
Net periodic pension costs				
– discount rate	4.9	5.4	5.4	6.0
– rate of compensation increase	3.2	3.2		
– expected return on plan assets	6.7	6.7		

The 2005 weighted average discount rate for the calculation of the obligation no longer includes the domestic pension plan. The assumptions for the expected return on plan assets were based on a review of the historical returns of the asset classes in which the assets of the pension plans are invested. The historical returns on these asset classes were weighted based on the expected long-term allocation of the assets of the pension plans.

The Group's primary objective with regard to the investment of pension plan assets is to ensure that in each individual scheme sufficient funds are available to satisfy future benefit obligations. For this purpose so-called asset and liability management (ALM) studies are made periodically at each pension fund. For each of the pension plans an appropriate mix is determined on the basis of the outcome of these ALM studies, taking into account the national rules and regulations.

Pension plan assets principally consist of long-term interest-earning investments, quoted equity securities, and real estate. At December 31, 2005 and 2004, plan assets did not include financial instruments issued by the Group, nor any property occupied or other assets used by it. The weighted average pension plan asset allocation at December 31, 2005 and 2004, and the target allocation for 2006 for the pension plans by asset category are as follows:

	Target allocation	**Percentage of plan assets at December 31,**	
Percent	2006	2005	2004
Equity securities	50-55	51	46
Long-term interest earning investments	35-45	36	42
Real estate	5-10	8	9
Other	0-5	5	3
Total		100	100

Weighted average assumptions for other postretirement benefits were as follows:

Percent	**2005**	2004
Assumed healthcare cost trend rates at December 31 :		
– healthcare trend rate assumed for next year	8.5	6.3
– rate to which the cost rate is assumed to decline (the ultimate rate)	5.0	3.5
– year that the rate reaches the ultimate trend rate	2009	2009

In line with plan agreements in place until December 31, 2005, allowances under the healthcare plan in the Netherlands are assumed not to increase anymore.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects:

Millions of euros	1 percentage point increase	1 percentage point decrease
Effect on total of service and interest costs	8	(6)
Effect on postretirement benefit obligation	72	(59)

Cash Flows
The Group expects to contribute EUR 160 million to its pension plans in 2006.

The following benefit payments, which take into account the effect of future service, are expected to be paid.

Millions of euros	**Pensions**	**Other postretirement benefits**
2006	279	33
2007	285	31
2008	302	30
2009	303	28
2010	315	28
2011-2015	1,598	167

Provisions for Restructuring of Activities

Provisions for restructuring of activities comprise accruals for certain employee termination benefits and for costs which are directly associated with plans to exit specific activities, primarily related to costs associated with closing down facilities.

The changes in these provisions (including the short-term portion) are summarized as follows:

Millions of euros	**Termination benefits**	**Exit costs**	**Total provision**
Balance at December 31, 2003	211	83	294
Changes in exchange rates		(2)	(2)
Additions charged to income as restructuring charge under incidentals	90	31	121
Other additions charged to income	(12)	14	2
Utilization	(119)	(53)	(172)
Divestiture	(2)		(2)
Balance at December 31, 2004	168	73	241
Changes in exchange rates		2	2
Additions charged to income as restructuring charge under incidentals	48		48
Other additions charged to income	3	14	17
Utilization	(71)	(38)	(109)
Amounts reversed during the year	(9)	(2)	(11)
Unwind of discount	8	3	11
Balance at December 31, 2005	147	52	199

At December 31, 2005, the provision for termination benefits involves 2,380 employees that either already have been terminated or will be terminated in the near future (December 31, 2004: 2,870).

Provisions for Environmental Costs

For details on environmental exposures reference is made to Note 15.

Other provisions

Other provisions relate to a great variety of risks and commitments, including provisions for antitrust cases of EUR 204 million. Reference is made to Note 15.

(14) Shareholders' Equity

Capital Stock

Authorized capital stock of the Group is EUR 1,600,019,200 and consists of 48 priority shares of EUR 400, 600 million common shares of EUR 2 and 200 million cumulative preferred shares of EUR 2. Subscribed share capital consists of 48 priority shares, 286,147,260 common shares, and no preferred shares.

In 2005, no common shares were issued. In connection with the Group's stock option plan, the Group held 374,021 common shares at December 31, 2005 (December 31, 2004: 374,021).

The priority shares are held by a foundation (the "Foundation"). The Board of the Foundation consists of the members of the Supervisory Board who are not members of the Audit Committee. The Meeting of Holders of Priority Shares has the right to make binding nominations for the appointment of members of the Board of Management and the Supervisory Board.

However, in normal circumstances, the members of the Supervisory Board and the Board of Management will be appointed on the basis of a nonbinding nomination by the Supervisory Board. In 2005, the Board of the Foundation has confirmed its intention to use its binding nomination rights only in the case of exceptional circumstances, such as in the event of a (threatened) hostile. To formalize this intention, the priority shares were transferred to a new Foundation that has incorporated this limitation in its Articles of Association. In both of the aforesaid situations, resolutions to appoint a person as a member of the Supervisory Board or the Board of Management require a simple majority. Of course, shareholders, meeting the requirements laid down in the Articles of Association, are also entitled to nominate members of the Supervisory Board or the Board of Management. According to the Articles of Association, such appointments will require a two-thirds majority representing at least 50% of the outstanding share capital.

Amendment of the Articles of Association and dissolution of the Group shall require the approval of the Meeting of Holders of Priority Shares.

The Board of Management is authorized to determine, with the approval of the Supervisory Board, the share of the profits to be added to retained earnings. The remainder of the profits shall be available for dividends to shareholders as follows: first to priority shares at 6 percent or the statutory interest whichever is lower, of their par value, with the balance available to common shares.

In case of liquidation, from the balance remaining after payment of debts, the holders of priority shares and common shares shall in that order be repaid the par value of their shares. From the balance remaining thereafter, accrued and unpaid dividends, if any, shall be paid first on the priority shares. Any balance remaining thereafter shall be distributed among the holders of common shares, pro rata according to the number of common shares.

According to domestic law, each holder of common shares has a preemptive right to acquire any issue of shares pro rata to the aggregate amount of his shares.

Each common share is entitled to one vote.

2005 Dividend Proposal

In the annual meeting of shareholders it was proposed that dividend on priority shares of EUR 768 and on common shares of EUR 343 million will be distributed. Following acceptance of this proposal, holders of common shares will receive a dividend of EUR 1.20 per share of EUR 2, of which EUR 0.30 was paid earlier as an interim dividend. The final dividend of EUR 0.90 has been made payable from May 5, 2006.

Statutory reserves

Statutory reserves also include EUR 8 million for capitalized development costs, as well as the reserves relating to the earnings retained by affiliated companies after 1983. Statutory reserves are nondistributable.

Translation reserves comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of intercompany loans with a permanent nature and liabilities that hedge the net investments in a foreign subsidiary.

Changes in fair value of derivatives comprise the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Equity settled transactions include the stock option program and the performance share plan whereby options or shares are granted to all members of the Board of Management, Senior Vice Presidents, and Executives. For details of the stock option plan and the performance share plan for the Board of Management and other executives, see below under stock appreciation rights.

Stock Options/Stock Appreciation Rights

Stock Options and Performance-Related Shares

Performance-related stock options and performance-related shares are granted to all members of the Board of Management, Senior Vice Presidents, and Executives. The number of participants was 675 in 2005 (2004: 733). The options for Senior Vice Presidents and Executives expire after five years. Options granted from 2002 onwards expire after seven years. Options granted to members of the Board of Management as from 2000 expire after ten years. Options granted from 2003 onwards expire after seven years. All outstanding options from the series 2000, except those for the members of the Board of Management, lapsed in 2005. Options issued as from 1999 cannot be exercised during the first three years. The Group currently does not purchase own shares in connection with its stock option plan. No financing facilities exist for option rights or tax payable thereon. One option entitles the holder thereof to buy one Group common share of EUR 2 or one American Depositary Share (ADS). As of 2005, all options only entitle the holder thereof to buy Group common shares. The exercise price is the Euronext Amsterdam opening price on the first day that the Group share is quoted ex dividend or the opening price for an ADS on NASDAQ on the first day that the Group ADS is quoted ex dividend.

In 2004, a performance-related share plan for the Board of Management was introduced. In 2005, the plan was also introduced for the Executives. Under this plan, a number of conditional shares are granted to the members of the Board of Management, Senior Vice Presidents and Executives each year. The actual number of shares to be granted depends on the Group's Total Shareholder Return (TSR) performance over a three-year period, compared with TSR-performance of a specified peer group. For further details on the performance-related share plan, see under B. Compensation in Item 6 – Directors, Senior Management and Employees of this Annual Report.

Options outstanding at December 31, 2005, have the following exercise prices and expiry dates:

Year of issue	Exercise price	Outstanding at December 31, 2005	Expiry date
Common Shares	*In EUR*		
Vested options			
2000	44.82	148,500	April 27, 2010
2001	46.75	839,740	April 30, 2006
2001	46.75	144,342	April 30, 2011
2002	46.53	836,160	April 25, 2009
2002	46.53	176,550	April 25, 2012
		2,145,292	
Unvested options			
2003	19.51	961,510	April 22, 2010
2004	31.45	886,280	April 25, 2011
2005	31.98	815,898	April 24, 2012
		2,663,688	
American Depositary Receipts	*In USD*		
Vested options			
2001	41.69	133,210	April 30, 2006
2002	42.05	139,810	April 25, 2009
Unvested options			
2003	21.21	178,970	April 22, 2010
2004	37.25	203,000	April 25, 2011
		654,990	
Total		**5,463,970**	

Stock option activity during the periods indicated was as follows:

	Common shares		American Depositary Receipts	
	Number of options	Weighted-average exercise price, in EUR	Number of options	Weighted-average exercise price, in USD
Balance at December 31, 2003	*5,085,800*	*40.17*	*485,100*	*33.55*
Granted	904,480	31.45	216,800	37.25
Exercised	–		–	
Expired/forfeited	(1,087,338)	42.33	(36,290)	32.64
Balance at December 31, 2004	*4,902,942*	*38.08*	*665,610*	*34.81*
Granted	819,486	31.98		
Exercised	–		(2,640)	41.69
Expired/forfeited	(913,448)	44.25	(7,980)	33.45
Balance at December 31, 2005	*4,808,980*	*35.87*	*654,990*	*34.79*

Until July 1, 2005, the stock options qualified as cash-settled options as the employee had the option to receive cash from the Group upon exercise of the options. Effective July 1, 2005, the arrangement was changed, so that the employee now has to take the shares from the Group upon exercise of the options, and then could sell these shares immediately afterwards through her or his bank.

The fair value of employee service received in return for share options granted are measured by reference to the fair value of share options granted. Until July 1, 2005, the Group recognized at each balance sheet a liability for the fair value of the options outstanding per that date, taking into account the passage of time of the three-year vesting period. The change in this fair value was recognized in income. At July 1, 2005, the fair value of the liability was EUR 20 million (December 31, 2004: EUR 16 million) and the charge recognized in the first half of 2005 amounted to EUR 4 million (full year 2004: EUR 4 million charge). At July 1, 2005, this liability was credited to shareholders' equity.

The amortized grant date fair value of the options outstanding at July 1, 2005, was EUR 41 million of a total grant date fair value of EUR 53 million. As a consequence, the remaining EUR 12 million will be charged to income over the remaining vesting period of the stock options after July 1, 2005. The charge for the second half of 2005 was EUR 3 million.

The expected value of performance stock options for the Board of Management is based on the Binominal Option Pricing Model, using certain assumptions. These assumptions were used for these calculations only, and do not necessarily represent an indication of management's expectations of future developments. In addition, option valuation models require the input of highly subjective assumptions, including expected share price volatility. The Group's employee stock options have characteristics significantly different from those of traded options and changes in the subjective assumptions used for the calculation can materially affect the fair value estimate.

The fair values at grant date for the options granted during 2004 and 2005 were as follows:

Year of issue	Exercise price	Expiry date	Fair value at grant date
Common Shares	*In EUR*		*In EUR*
2004	31.45	April 25, 2011	7.94
2005	31.98	April 24, 2012	7.45
American Depositary Shares	*In USD*		*In USD*
2004	37.25	April 25, 2011	8.48

The assumptions used for the options granted during the years 2004, and 2005, were as follows:

Year of issue – year of expiry	Risk-free interest rate	Expected dividend yield	Expected option life	Expected share price volatility
Common Shares				
2003 – 2010	3.3%	3.6%	5 yrs	33.7%
2004 – 2011	3.2%	4.1%	5 yrs	35.2%
2005 – 2012	3.25%	4.4%	5 yrs	33.4%
American Depositary Receipts				
2003 – 2010	2.8%	3.6%	5 yrs	31.8%
2004 – 2011	2.8%	4.1%	5 yrs	32.7%

The expected volatility is based in the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Share options are granted under a service condition and a non-market performance condition. Such conditions are not taken into account in the grant date fair value measurement. There are no market conditions associated with the share option grants.

The grant date fair value of the performance shares is amortized as a charge against income over the three-year vesting period. The fair value at grant date is based on the Monte Carlo simulation model taking market conditions into account. The value was calculated by external actuaries and amounted to EUR 10.84 for the performance shares conditionally granted in 2004 and EUR 12.67 for the 2005 performance shares. The 2005 charge recognized aggregated EUR 3 million (2004: EUR 0.4 million).

	2005	2004
Issued ordinary shares at January 1	286,147,260	286,147,260
Effect of own shares held	(374,021)	(401,673)
Shares for basic earnings per share	285,773,239	285,745,587
Effect of dilutive shares:		
– for stock options	658,646	423,348
– for performance-related share plan	519,841	236,962
Shares for diluted earnings per share	**286,951,726**	**286,405,897**

(15) Commitments and Contingent Liabilities

Environmental Matters

The Group is subject to extensive European Union, national and local laws and regulations governing discharges to the air and water as well as the handling and disposal of solid and hazardous wastes. In addition, the Group is subject to regulatory requirements governing the remediation of environmental contamination associated with past releases of hazardous substances. Governmental authorities have the power to enforce compliance with these requirements, and violators may be subject to civil or criminal penalties, injunctions, or both. Third parties also may have the right to sue to enforce compliance. The Group is involved in (legal) proceedings with regulatory authorities in various countries that may require the Group to pay fines relating to violations of environmental laws and regulations, comply with more rigorous standards or other requirements, and incur capital and operating expenses to meet such obligations.

The Group is subject to hazardous substance cleanup laws in various countries that impose liability for the costs of cleaning up contamination resulting from past spills, disposal or other releases of hazardous substances. In particular, the Group may be subject to liability under the United States Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA” or “Superfund”) and similar laws that impose liability–without a showing of fault, negligence or regulatory violation–on the generators of hazardous substances that have caused, or may cause, environmental contamination. Pursuant to CERCLA, in certain circumstances, the United States Environmental Protection Agency (“EPA”) may order one or more potentially responsible parties (“PRPs”) to clean up environmental contamination. In other cases, the EPA may clean up a site and then seek reimbursement of expenditures of federal funds from PRPs. Courts have interpreted CERCLA generally to impose joint and several liability without regard to fault for cleanup (and certain other) costs on all PRPs. This means that each PRP conceivably could be held liable for the entire amount of necessary cleanup costs. As a practical matter, however, liability is often apportioned among PRPs based on the volume and/or toxicity of the wastes disposed by each PRP.

It is the Group’s policy to accrue and charge against earnings environmental cleanup costs when it is probable that a liability has been incurred and an amount is reasonably estimable. These accruals are reviewed periodically and adjusted, if necessary, as assessments and cleanups proceed and additional information becomes available. Environmental liabilities can change substantially by the emergence of additional information on the nature or extent of contamination, the necessity of employing particular methods of remediation, actions by governmental agencies or private parties, or other factors of a similar nature. Cash expenditures often lag behind the period in which an accrual is recorded by a number of years.

In accordance with the aforementioned policies, as of December 31, 2005 the aggregate environmental related long-term liabilities and accruals accounted for amounted to EUR 268 million (December 31, 2004: EUR 242 million). The liabilities have been discounted, using an average discount rate of 5 percent.

The obligations for environmental liabilities for each of the next five years and thereafter are as follows:

Millions of euros	**Obligation**
2006	83
2007	73
2008	23
2009	20
2010	22
Later	47
Total	**268**

Although the Group believes that over the years it and its predecessors utilized operating practices that were standard in the relevant industry and were in compliance with existing environmental regulations, hazardous materials may have been released in or under currently–or previously–operated sites. Consequently, the Group may be required to remediate contamination at some of these sites. Although the Group does not have sufficient information to estimate its potential liability in connection with any potential future remediation, it believes that if any such remediation is required, it will occur over an extended period of time. The Group anticipates that there may be a need for future provisions for environmental costs which, in management's opinion based on information currently available, would not have a material adverse effect on the Group’s financial position and liquidity, but could be materially adverse to the Group’s results of operations or cash flows in any one accounting period.

Antitrust Cases

The Group is involved in investigations by the antitrust authorities in the European Union, the United States, and Canada into alleged violations of the respective antitrust laws for some products in these jurisdictions. The Group is fully cooperating with the authorities in these investigations. In addition, the Group is defending civil damage claims in relation to some of these alleged antitrust violations. At December 31, 2004, the Group had a provision for antitrust cases of EUR 167 million. Fines, civil damage settlements, and legal costs incurred in 2005 in connection with these cases amounted to EUR 12 million (2004: EUR 5 million).

In 2005, based on an estimate of probable fines, civil damage claims, and costs to be paid over a number of years to come – taking into account legal advice and the current facts and circumstances – the Group added EUR 39 million to the provision for antitrust cases. At December 31, 2005, the provision for antitrust cases amounted to EUR 204 million. Included in this amount are provisions for three cases pending in appeal by the Group with the EU Court of First Instance against decisions by the EU Commission to impose fines on the Group for violations of EU competition laws.

For further developments reference is made to Note 25 Subsequent Events.

It should be understood, however, that in light of possible future developments such as (a) the outcome of investigations by the various antitrust authorities, (b) potential additional lawsuits by (direct or indirect) purchasers, (c) possible future civil settlements, and (d) rulings or judgments in the pending investigations or in related civil suits, the antitrust cases are likely to result in additional liabilities and related costs. The Group at this point in time cannot estimate any additional amount of loss or range of loss in excess of the recorded amounts with sufficient certainty to allow such amount or range of amounts to be meaningful. Moreover, if and to the extent that the contingent liabilities materialize, they are typically paid over a number of years and the timing of such payments cannot be predicted with confidence.

The Group believes that the aggregate amount of any additional fines and civil damages to be paid will not materially affect the Group's financial position. The aggregate amount, however, could be material to the Group's results of operations or cash flows in any one accounting period.

With regard to our 50/50 joint venture for rubber chemicals, authorities in the United States, Canada, and Europe are investigating alleged antitrust violations in the rubber chemicals industry. We have been informed by management of the joint venture that it is cooperating with the authorities and will continue to do so and pursuant to this cooperation has been granted conditional amnesty by the US DOJ, the Canadian BOC and the EU Commission. We are also aware of a number of purported class actions and an individual action having been filed against the joint venture in federal court (by direct purchasers), which have been settled in 2005, and in various state courts (by alleged indirect purchasers) in the United States, and in the province of Quebec, Canada. The Group is involved as codefendant in State actions in Florida and Massachusetts. The joint venture has recognized certain provisions for these cases but the Group does not believe that the plaintiffs will be able to establish liability on the part of the Group nor does it believe that it will be liable for funding any judgments against settlements made by, or related costs incurred by the joint venture. The carrying value of the Group's investment in the joint venture, however, may be affected by these cases.

Other Litigation

Since December 2002, the Group has been involved in several cases regarding certain products. During 2004 and 2005, settlements were reached in all these cases, the last of which was approved in November 2005 by the United States District Court for the district of, New Jersey.

Late January 2006, the Group and the Pension Fund in the Netherlands received a summons from the Association of Retired Employees with regard to the changed financing of the Group's domestic pension plan. Based on legal advice, the Group and the Pension Fund have confidence in a positive outcome of the proceedings.

A number of other claims are pending against the Group and its subsidiaries, all of which are contested. The Group is also involved in disputes with tax authorities in several jurisdictions. While the outcome of these claims and disputes cannot be predicted with certainty, the Group believes, based upon legal advice and information received, that the final outcome will not materially affect the consolidated financial position of the Group but could be material to the Group's result of operations or cash flows in any one accounting period.

For further developments reference is made to Note 25 Subsequent Events.

Commitments

Purchase commitments for property, plant and equipment aggregated EUR 76 million at December 31, 2005. At December 31, 2004, these commitments totaled EUR 96 million. In addition, the Group has purchase commitments for raw materials and supplies incident to the ordinary conduct of business, for a total of EUR 1.5 billion (2004: EUR 1.2 billion).

Long-term liabilities contracted in respect of leasehold, rental, operational leases, research, etc., aggregated EUR 822 million at December 31, 2005 (at December 31, 2004: EUR 557 million). Payments due within one year amount to EUR 261 million (2004: EUR 165 million); payments between one and five years EUR 441 million (2004: EUR 269 million) and payments due after more than five years amount to EUR 120 million (2004: EUR 123 million).

Obligations under long-term non-cancelable operating leases and other commitments for each of the next five years and thereafter are as follows:

Millions of euros	**Lease**	**Other**	**Total**
2006	103	158	261
2007	77	76	153
2008	53	60	113
2009	37	66	103
2010	31	41	72
Later	86	34	120
Total	**387**	**435**	**822**

Guarantees

Guarantees relating to nonconsolidated companies amounted to EUR 3 million (at December 31, 2004: EUR 5 million). As general partner in several partnerships, the Group companies are liable for obligations incurred by these partnerships. At December 31, 2005, the risk ensuing from these liabilities was EUR 113 million (at December 31, 2004: EUR 92 million).

(16) Information about Financial Instruments

For information on the commercial paper programs reference is made to Note 10. For information on the standby multicurrency loan facility reference is made to Note 13.

Foreign Exchange Risk Management

The Group enters into forward exchange contracts to hedge the entire transaction risk on sales, purchases, and financing transactions denominated in currencies other than the functional currency of the subsidiary concerned. The purpose of the Group's foreign currency hedging activities is to protect the Group from the risk that the eventual functional currency net cash flows resulting from committed trade or financing transactions are adversely affected by changes in exchange rates. Most forward exchange contracts outstanding at year-end have a maturity of less than one year. Where necessary, the forward exchange contracts are rolled over at maturity. Incidentally, the Group may apply hedge accounting. The Group does not use financial instruments to hedge the translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries and nonconsolidated companies. Currency derivatives are not used for speculative purposes.

At December 31, 2005, outstanding contracts to buy currencies totaled EUR 1.0 billion (at December 31, 2004: EUR 1.1 billion), while contracts to sell currencies totaled EUR 1.0 billion (at December 31, 2004: EUR 0.9 billion). These contracts mainly relate to U.S. dollars, Canadian dollars, Swedish kronor, Norwegian kronor, pounds sterling, and Japanese yen, all having maturities within one year.

The Group does not use financial instruments to hedge the translation risk related to equity, intercompany loans of a permanent nature, and earnings of foreign subsidiaries and nonconsolidated companies.

Interest Risk Management

In principle, the Group manages interest risk by matching the duration of assets and liabilities. As a consequence, noncurrent assets and a certain portion of current assets are financed with equity, provisions, and long-term borrowings with fixed interest rates. The remainder of current assets is financed with short-term debt, including floating rate short-term borrowings. In order to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy, a number of swap contracts and forward rate agreements have been entered into.

The Group swapped EUR 500 million fixed rate liabilities with an interest rate of 5.625% with partially 3-months and partially 6-months floating rate EURIBOR-related liabilities, maturing in 2009. In addition, the Group swapped EUR 250 million 3-months floating rate EURIBOR liabilities into USD 223 million 3-months floating rate LIBOR liabilities, maturing in 2009. The combined effective interest rate was 4.18%.

The Group swapped fixed rate liabilities with an interest rate of 4.25% with 6-months floating rate EURIBOR-related liabilities for an amount of EUR 650 million, maturing in 2011. The combined effective interest rate was 2.69%.

The Group classifies the interest rate swaps as fair value hedges and states them at fair value.

The Group concluded forward rate agreements whereby interest on deposits was fixed for a volume of EUR 100 million to EUR 300 million in the range from 2.06% to 2.64% during the period January to April 2006 and for a volume of EUR 100 million in the range from 2.34% to 2.47% during the period October 2006 to March 2007. For the forward rate agreements no hedge accounting is applied.

Credit Risk

The Group has a credit risk management policy in place. The exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit. Generally the Group does not require collateral in respect of financial assets.

Investments in cash and cash equivalents are entered into with counterparties which have a high credit rating and limits per counterparty have been set. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the Group has contractual netting agreements. The Group has no reason to expect nonperformance by the counterparties to these agreements.

Due to the geographical spread of the Group and the diversity of its customers, at balance sheet date the Group was not subject to any significant concentration of credit risks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Commodities

In order to hedge the price risk of natural gas, the Group has entered into swap contracts for the underlying fuels, with an average volume per month of 43,600 tons for the period of January through December 2006, whereby the price is fixed. The Group also concluded futures contracts to hedge the price risk attached to the purchase of 2,600 million m3 of gas, reasonably spread over the period 2006-2008. For none of these contracts hedge accounting is applied.

Furthermore, the Group entered into futures contracts for electricity in order to hedge the price risk for the expected use of electricity by certain subsidiaries over the period 2006-2008, spread in tranches of three months. For these contracts cash flow hedge accounting is applied.

Sensitivity Analysis

By managing interest rate and currency risks, the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings.

At December 31, 2005, the decrease in the Group's profit before tax as a result of a general increase of one percentage point in interest rates would be negligible. Cash and cash equivalents, short-term borrowings and interest swaps have been included in this assessment.

Fair Value of Financial Instruments

The carrying values and estimated fair values of financial instruments do not differ materially with the exception of the following:

	December 31, 2005		December 31, 2004	
Asset/(liability)	Carrying amount	Estimated fair values	Carrying amount	Estimated fair values
Subordinated loan to Pension Fund	87	87		
Trade and other receivables	2,773	2,773	2,551	2,551
Cash and cash equivalents	1,486	1,486	1,811	1,811
Interest rate currency swaps			175	237
Interest swap contracts	81	81	–	32
Cross currency swap contracts	64	64	–	–
Forward rate agreements	–	–	–	–
Forward exchange contracts:				
– asset	23	23	58	59
– liability	(11)	(11)	(47)	(47)
Long-term borrowings	(2,702)	(2,833)	(2,392)	(2,566)
Short-term borrowings	(357)	(357)	(258)	(258)
Trade and other payables	(2,191)	(2,191)	(2,511)	(2,511)
Electricity futures	18	18		
Petroleum swaps	4	4		–
Gas futures	1	1		–
	(724)	(855)	(613)	(692)
Unrecognized (losses)/gains		(131)		(79)

The fair value of foreign currency contracts, swap contracts, forward rate agreements, petroleum options, and gas futures was estimated by calculation and obtaining quotes from dealers and brokers.

The fair value of the Group's long-term borrowings was estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Group for debt with similar maturities.

The carrying amounts of cash and cash equivalents, receivables, short-term borrowings, and other current liabilities approximate fair value due to the short maturity period of those instruments.

(17) IAS 39 Fair Value Adjustments

IAS 39 fair value adjustments concern changes in the fair value of forward exchange contracts, petroleum swaps, and gas futures, for which no cash flow hedge accounting is applied. As a consequence, the changes in fair value of these contracts are recognized in income directly.

(18) Incidentals

Incidentals are special benefits, results on divestments, restructuring and impairment charges, and charges related to major legal, antitrust, and environmental cases.

In 2005, the special benefits mainly relate to the release of provisions due to termination of the postretirement healthcare plan in the Netherlands, and the change to a defined contribution plan in the Netherlands (EUR 283 million).

In 2005 and 2004, the following restructuring and impairment charges for consolidated companies were included:

Millions of euros	**2005**	**2004**
Asset impairments at		
– Pharmaceutical	(67)	(31)
– Animal Products		–
– Coatings	(5)	(16)
– Chemicals	(49)	(30)
Restructurings at:		
– Pharmaceutical	(3)	(19)
– Animal Products		–
– Coatings	(31)	(38)
– Chemicals	(14)	(61)
– Others		(2)
Total	**(169)**	**(197)**

In 2005, the asset impairments mainly relate to Pharmaceutical's active pharmaceutical ingredients activities and a chemicals plant in the United States. Pharmaceutical's active pharmaceutical ingredients activities are under pressure from difficult market circumstances, leading to a pre-tax impairment charge of EUR 67 million. The impairment of the plant was the result of restructuring of the production capacity in order to address the more competitive environment in which the Surfactants business operates. In addition, several smaller impairments at Chemicals and Coatings were recognized. Restructuring charges relate to several relatively smaller plans within the Group and comprise accruals for employee benefits and for costs directly associated with plans to exit specific activities and to close down facilities. For all restructurings a detailed formal plan exists, and the implementation of the plan has started or the plan has been announced.

Charges related to major legal, antitrust and environmental cases for 2005 include EUR 64 million for the settlement of the Product P case, EUR 39 million for antitrust cases and EUR 9 million for environmental risks at derelict sites of companies acquired in the past.

2004

In 2004, the special benefits mainly related to the early entrance fee for a marketing license in Germany, and the settlement of insurance claims for the West Orange site.

The gain on the divestments is mainly related to the divestment of Catalysts, Phosphorus Chemicals, and Coating Resins.

Pharma’s restructuring losses mainly concern impairment and closure costs of the Pharmaceutical production site in West Orange, New Jersey, and other worldwide cost reduction programs. Coatings restructuring charges predominantly concern the rationalization programs at Car Refinishes. Restructurings and impairments at Chemicals relate to the closure of a Surface Chemistry site in the United Kingdom, the chlorine production in Bohus, Sweden, and staff cuts at Polymer Chemicals in Germany. In total, these restructurings affect 1,840 jobs worldwide.

As can be noted from the above, impairment charges mainly relate to assets on sites (to be) closed. The impairment was determined based on the estimated fair value at which the assets are expected to be sold. Assets, for which it is not possible to be sold, were written down to zero.

In 2004, these charges related to antitrust (EUR 102 million), product liability cases (EUR 89 million) and environmental cases (EUR 11 million).

(19) Other operating income/ (expenses)

The following items are included as other results:

Millions of euros	**2005**	**2004**
Results on sale of redundant assets	5	5
Currency exchange differences	5	(4)
Other items	6	(2)
Total	**16**	**(1)**

(20) Financing Charges

Millions of euros	**2005**	**2004**
Interest income	34	19
Interest expense	(149)	(142)
Interest on discounting of provisions and other long-term receivables	(41)	(21)
Total	**(156)**	**(144)**

Interest expense was reduced by EUR 3 million and EUR 4 million in 2005 and 2004, respectively, due to the capitalization of financing expenses of capital investment projects under construction.

(21) Income Taxes

In assessing the valuation of the deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realized. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred tax assets considered realizable, however, could change in the near term if future estimates of projected taxable income during the carryforward period are revised. Deferred tax assets and liabilities relate to the following balance sheet items:

Tax charges are as follows:

Millions of euros	**2005**	**2004**
Operating income less financing charges	(336)	(412)
Nonconsolidated companies[1]	(2)	(4)
Total	**(338)**	**(416)**

1 Includes nonrefundable withholding taxes for dividends and income taxes relating to the Group's share in partnership earnings.

Pre-tax income (including earnings from nonconsolidated companies) from domestic and foreign operations are as follows:

Millions of euros	**2005**	**2004**
Domestic	423	455
Foreign	913	942
Total	**1,336**	**1,397**

The tax (charges)/benefits from domestic and foreign operations were as follows:

Millions of euros		**2005**		**2004**
Current tax				
Domestic	(29)		(44)	
Foreign	(358)		(383)	
		(387)		(427)
Deferred tax				
Domestic	(103)		(33)	
Foreign	152		44	
		49		11
Total		**(338)**		**(416)**

Included in the deferred income tax (expense)/benefit above are benefits of operating loss carryforwards of EUR 44 million and EUR 12 million for the years ended December 31, 2005 and 2004, respectively. Also included in the deferred income tax expense above are net adjustments of the beginning-of-the-year balance of the valuation allowance of a decrease of EUR 2 million and an increase of EUR 1 million for the years ended December 31, 2005 and 2004, respectively.

The table below reconciles the normal domestic corporation tax rates to the effective consolidated rates in the statement of income.

Percentages	**2005**	**2004**
Domestic corporate tax rate	32	35
Nontaxable income from nonconsolidated companies (excluding partnerships)	(1)	(2)
Effect of lower tax rates in certain countries[1]	(6)	
Nondeductible expenses/(tax exempt income)	2	(5)
Effect of tax losses utilized		1
Under/(over) provided in prior years	(2)	1
Total	**25**	**30**

Nondeductible expenses in 2005 relates to several smaller items. Tax exempt income in 2004 mainly concerns the non taxable gains on the divestments at Chemicals. The 2005 reversal of the overprovision in prior years for 2005 mainly concerned a tax settlement in Germany.

At December 31, 2005, losses carried forward amounted to EUR 520 million, of which the tax effect of EUR 102 million is not recognized in the balance sheet. Of the total losses carried forward EUR 12 million will expire within one year, while EUR 92 million will expire within five years. EUR 226 million will expire after 5 years. For EUR 190 million of losses, there is no expiration date. Of the net deferred taxes EUR 230 million is expected to reverse in 2006.

1 Includes the effects of changes in enacted tax rates.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004, are presented below.

	2005 Assets	Liabilities	2004 Assets	Liabilities
Intangible assets	139	12	55	14
Property, plant and equipment	71	158	43	152
Inventories	25	14	36	41
Trade and other receivables	29	32	26	18
Provisions:				
– pensions and other postretirement benefits	347	30	583	49
– restructuring	30	1	37	3
– other provisions	399	52	328	37
Other items	75	187	91	301
Net operating loss carryforwards	145		119	
Valuation allowances	(35)		(53)	
Tax assets/liabilities	1,225	486	1,265	615
Set-off of tax	(330)	(330)	(471)	(471)
Net deferred taxes	895	156	794	144

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to set off tax assets against tax liabilities and when the deferred tax assets and liabilities relate to the same tax authority.

The movement in temporary differences during the year is as follows:

	Net balance January 1, 2004	Changes in exchange rates	Recognized in income	Recognized in equity	Net balance December 31, 2004
Intangible assets	57	(3)	(13)		41
Property, plant and equipment	(96)	2	(15)		(109)
Inventories	(20)	(1)	16		(5)
Trade and other receivables	11	–	(3)		8
Provisions:					
– pensions and other postretirement benefits	578	(5)	(39)		534
– restructuring	43	–	(9)		34
– other provisions	260	(10)	41		291
Other items	(310)	7	93		(210)
Net operating loss carryforwards	169	(5)	(45)		119
Valuation allowances	(40)	2	(15)		(53)
Tax assets/liabilities	652	(13)	11		650

	Net balance December 31, 2004	Changes in exchange rates	Recognized in income	Recognized in equity	Net balance December 31, 2005
Intangible assets	41	7	79		127
Property, plant and equipment	(109)	(5)	27		(87)
Inventories	(5)	1	15		11
Trade and other receivables	8	1	(12)		(3)
Provisions:					
– pensions and other postretirement benefits	534	14	(228)		320
– restructuring	34	2	(7)		29
– other provisions	291	22	38		351
Other items	(210)	(2)	100	(7)	(119)
Net operating loss carryforwards	119	11	15		145
Valuation allowances	(53)	(4)	22		(35)
Tax assets/liabilities	650	47	49	(7)	739

The valuation allowance for deferred tax assets as of December 31, 2005 and 2004, was EUR 35 million and EUR 53 million, respectively. The net change in the valuation allowance for the years ended December 31, 2005 and 2004, was a decrease of EUR 18 million and an increase of EUR 13 million, respectively, due to changed assessments of realizability of deferred tax assets.

No taxes have been provided for approximately EUR 2.4 billion of unremitted earnings of certain foreign subsidiaries as of December 31, 2005 (2004: EUR 1.4 billion). The remittance of these amounts would not lead to a domestic income tax charge and, in case of nonrefundable withholding taxes, part of these withholding taxes would be available for tax credits.

(22) Earnings from Nonconsolidated Companies

The 2005 earnings from nonconsolidated companies amounted to EUR 4 million net of a tax charge of EUR 2 million (2004: EUR 10 million net of tax charge of EUR 4 million).

(23) Explanation of Transition to IFRS

The Group changed its accounting policies in order to be in compliance with International Financial Reporting Standards (IFRS) and the interpretations as adopted by the European Union.

In preparing the opening balance sheet on IFRS basis, the Group has adjusted amounts previously reported in financial statements prepared in accordance with Previous GAAP. As the Group publishes comparative information for one year in the Annual Report, the transition date to IFRS is January 1, 2004. An explanation of how the transition to IFRS has affected the financial position, financial performance and cash flows of the Group is set out in the following tables and the accompanying notes.

IFRS Impact – Net Income up; Shareholders' Equity Down; Funds Balance Unchanged
In summary, the impact of IFRS on the Group's accounts is an increase in net income for 2004 of EUR 89 million, but a decline in shareholders' equity, at December 31, 2004, of EUR 431 million. This is mainly attributable to the differences in the method of accounting under IFRS for pensions and other postretirement benefits, the recognition of deferred taxes on intercompany profit, the recognition of the payment received from Company P for the cooperation agreement, and the recognition of goodwill. For the most part, the changed accounting is a matter of timing of the recognition of assets, liabilities, and related results. However, there is no impact on the underlying cash flows of the businesses.

Changes in Accounting Principles Due to the Adoption of IFRS

Employee Benefits

Pensions and Other Postretirement Benefits

Until December 31, 2004, the Group accounted for pensions and other postretirement benefits in accordance with SFAS 87 and SFAS 106.

For the implementation of IAS 19 Employee Benefits in respect of pensions and other postretirement benefits, the Group had to recognize the funded status, at January 1, 2004, of the projected benefit obligation (PBO) insofar as this was not covered by provisions or prepaid pension assets in the Previous GAAP balance sheet. Any unvested portion of past service cost at that date had to be excluded.

On January 1, 2004, the Group had a significant deficit for its pension and other postretirement benefit plans. The deficit in excess of provisions and prepaid pension assets in the Previous GAAP balance sheet has been charged against shareholders' equity in the IFRS opening balance sheet at January 1, 2004. This concerned an amount of EUR 1,356 million after taxes. At December 31, 2004, this amount was EUR 1,246 million after taxes.

In the Previous GAAP balance sheet, the Group had also recognized a so-called minimum pension liability for the deficit determined on the accumulated benefit obligation (ABO) level, as required under SFAS 87. This consisted of an after-tax charge against shareholders' equity (January 1, 2004: EUR 824 million; December 31, 2004: EUR 759 million) and recognition of an intangible asset (January 1, 2004: EUR 165 million; December 31, 2004: EUR 137 million). As these are not allowed under IAS 19, the minimum pension liability-related entries were reversed, partly offsetting the aforementioned recognition of the deficits on a PBO basis.

The consequences of the U.S. Medicare Prescription Drug Improvement and Modernization Act of 2003 have also been taken into account in the IFRS opening balance sheet. This resulted in the recognition of a tax-free financial noncurrent asset of EUR 43 million (at December 31, 2004: EUR 53 million).

Going forward, the full recognition of the deficit at January 1, 2004 resulted in lower net period pension costs for 2004, as the deferred losses under SFAS 87 and SFAS 106 no longer had to be amortized. As a result of the improved pension funding situation at December 31, 2004, IFRS-based 2005 pension charges were expected to drop by some EUR 50 million, compared to 2004. Included in the 2004 net income effect of IAS 19 is an after-tax gain of EUR 43 million for the settlements/curtailments as a consequence of the Catalysts divestment.

Other Employee Benefits

IAS 19 requires provisioning of long-term employee benefits, such as payments on the occasion of a service jubilee of an employee. This was not specifically required under Previous GAAP, where costs for such benefits often were recognized on a pay-as-you-go basis. The required provision for other long-term benefits in accordance with IAS 19 amounts to EUR 24 million, which is EUR 15 million after taxes (at December 31, 2004: EUR 24 million and EUR 15 million, respectively).

Revenues

General

Revenues under IFRS are defined as the revenue from the sale and delivery of goods and services and royalty income, net of rebates, discounts, and similar allowances, and net of sales tax. Revenues are recognized when the significant risks and rewards have been transferred to a third party.

The Group used to report royalty income under Other Results in the statement of income. Under IFRS, royalty income is reclassified to Revenues. Also proceeds for certain services rendered by the Group, which used to be deducted from cost lines in the statement of income, have now been reclassified to "Revenues".

Company P payment

In December 2003, the Group received an initial payment of EUR 88 million (EUR 70 million after taxes) from Company P under the co-development and co-marketing agreement. In accordance with the contract and the spirit thereof, this payment is a nonrefundable reimbursement of the expenses incurred by the Group in prior years for the development of related know-how so far. In accordance with Previous GAAP, such payment was recognized as income immediately.

In accordance with IFRS revenue recognition rules, nonrefundable upfront fees are initially reported as deferred income and are recognized as revenue based on the (expected) development costs over the remaining first part of the development period, currently anticipated to be from 2004 to 2007. At December 31, 2004 an amount of EUR 56 million (EUR 45 million after taxes) was deferred.

Consequently, this payment, which had already been recognized in 2003 Previous GAAP income, is again recognized in IFRS revenues, but now over the years 2004-2007.

Income Taxes

As allowed under Previous GAAP, the tax effect on the elimination of intercompany profit in inventories was based on the tax rate of the country of the subsidiary sending the goods, thus fully eliminating intercompany sales in the statement of income. IFRS, however, prescribes that tax on such elimination is to be based on the tax rate of the country of the subsidiary receiving the goods. As a consequence, the deferred tax asset related to intercompany profit increased by EUR 76 million at January 1, 2004. At December 31, 2004, this amount was EUR 33 million. Going forward, the impact on earnings will be determined by the changes in levels of intercompany inventory in the various countries.

Furthermore, IFRS specifically prescribes that current and deferred tax assets and liabilities in countries which have separate tax rates for distributed and undistributed profits are measured at the tax rate applicable to undistributed profits. The income tax consequences of dividends are recognized when a liability to pay the dividend is recognized. For Previous GAAP in certain circumstances such current and deferred tax assets and liabilities can be measured at the tax rate applicable to distributed profits. The impact of this difference on the Group's accounts is limited.

Business Combinations

Under Previous GAAP, goodwill is capitalized and amortized. IFRS 3 prescribes that goodwill must be capitalized and not amortized, but tested for impairment annually.

The Group has elected the transition option in IFRS 1 to apply IFRS 3 prospectively from the transition date. This option was chosen rather than to restate all previous business combinations. The impact of IFRS 3 and associated transitional arrangements on the Group is as follows:

- all prior business combination accounting is frozen at the transition date; and
- the value of goodwill is frozen at January 1, 2004, and amortization previously reported under Previous GAAP for 2004 is removed for financial statements prepared under IFRS.

Provisions

Discounting

IFRS, in principle, prescribes discounting of all provisions, which is not always the case in Previous GAAP. The impact of discounting of provisions thus far undiscounted at January 1, 2004, was a decrease in provisions of EUR 16 million, which was EUR 11 million after taxes. At December 31, 2004, these amounts were EUR 29 million and EUR 20 million, respectively.

Going forward, the interest accrued on discounted provisions is recognized under financing charges. Under Previous GAAP, such charges were included in operating income.

Restructuring Provisions

In accordance with Previous GAAP, restructuring provisions are recognized if the restructuring has been announced to the employees involved before the date of the financial statements. Under IFRS, a restructuring can only be recognized if this is announced before the balance sheet date.
Restructurings for which provisions amounted to EUR 9 million (EUR 6 million after taxes) were announced in January 2004. Therefore, these provisions did not qualify for recognition under IFRS in the balance sheet at January 1, 2004, but were recognized under IFRS in the first quarter of 2004. In the quarters of 2004, certain restructuring provisions reported under Previous GAAP did not meet the IFRS recognition criteria either and therefore they were deferred for recognition in the next quarter. At December 31, 2004, all provisions qualified for recognition under IFRS.

Share-Based Payments

In accordance with Previous GAAP, the Group recognized expenses related to stock options as a direct charge to shareholders' equity when the related payments were incurred.

In accordance with IFRS 2, the Group's stock option plans qualify as so-called cash-settled plans. As a consequence, the Group has to charge the fair value of the stock options against income (first spread over the vesting period and later over the remaining life of the options) and recognize a related liability in the balance sheet. This liability at January 1, 2004, amounted to EUR 11 million, which is EUR 8 million after taxes. At December 31, 2004, these amounts were EUR 16 million and EUR 10 million, respectively. The fair value has been calculated using the binomial options valuation model. The charge to income over the relevant option vesting periods is adjusted to reflect actual and expected levels of vesting.

Nonconsolidated Companies

Valuation of the Group's interest in nonconsolidated companies is based as much as possible on IFRS, as adopted by the Group. The impact of the difference between Previous GAAP and IFRS for nonconsolidated companies on the Group's accounts is limited.

Jointly Controlled Companies

For interests in jointly controlled legally incorporated companies IFRS prescribes that they must be either proportionally consolidated or equity accounted as a nonconsolidated company. The chosen method has to be applied to all such interests. Under Previous GAAP, the Group equity accounted most of the jointly controlled interests. However, one joint venture was proportionally consolidated.

Under IFRS, the Group has elected to equity account all jointly controlled interests. The impact of the deconsolidation in the January 1, 2004, balance sheet of the joint venture that was proportionally consolidated was not significant and did not affect shareholders' equity or net income. Due to the change in set up in the first quarter of 2004, this joint venture ceased to exist and was replaced by a revenue arrangement based on future sales from jointly developed antithrombotic products.

It should be noted that the cooperation with Company P is not legally incorporated. As a consequence, this cooperation is proportionally consolidated for both Previous GAAP and IFRS.

Nonrecurring Items

In its Previous GAAP statements, the Group separately reported so-called nonrecurring items. These related to income and expenses resulting from normal business operations, which, because of their size or nature, were disclosed separately to give a better understanding of the underlying result for the period. These included items such as restructurings and impairment charges, significant gains and losses on the disposal of businesses, and costs related to major lawsuits and antitrust cases not meeting the requirements for extraordinary items.

Previous GAAP operating income before nonrecurring items was one of the key figures management used to assess the performance of the Group, as these figures better reflected the underlying trends in the results of the activities. IFRS does not allow this concept. Therefore, the Group will not report IFRS earnings figures excluding nonrecurring items. However, for a better understanding of the Group's earnings development, the most important elements of nonrecurring items are now reported as Incidentals on separate lines within operating income in the statement of income.

Cumulative Translation Differences

The Group chose the option in IFRS 1 whereby cumulative translation differences in shareholders' equity are deemed to be zero at the date of transition. The negative Previous GAAP balance of EUR 1,045 million at January 1, 2004, is deducted from Other Reserves, which therefore starts with a negative balance of EUR 435 million. However, as 2004 net income is higher than dividends paid during the year, the balance of Other Reserves and Undistributed Profit at December 31, 2004, shows a positive balance of EUR 165 million. It should be noted that if the Group would ever have negative Other Reserves, in principle, it will still be able to pay dividends but then from Additional Paid-in Capital.

RECONCILIATION OF EQUITY

Millions of euros	**Capital and reserves**	**Minimum pension liability**	**Shareholders' equity**
Previous GAAP shareholders' equity at January 1, 2004	3,326	(824)	2,502
Pensions and other postretirement benefits	(1,313)	824	(489)
Deferred taxes on intercompany profit	76		76
Company P payment	(70)		(70)
Discounting of provisions	11		11
Other long-term employee benefits	(15)		(15)
Share-based payments	(8)		(8)
Restructuring provisions	6		6
Other	12		12
IFRS shareholders' equity at January 1, 2004	**2,025**		**2,025**

Millions of euros	**IFRS**	**Previous GAAP**
Subscribed share capital	572	572
Additional paid-in capital	1,803	1,803
Cumulative translation differences		(1,045)
Other statutory reserves	85	85
Other reserves and undistributed profit	(435)	1,911
Capital and reserves	2,025	3,326
Minimum pension liability		(824)
Shareholders' equity	**2,025**	**2,502**

CONSOLIDATED BALANCE SHEET
As at January 1, 2004

Millions of euros	**Previous GAAP, at January 1, 2004**		**Effect of transition to IFRS**		**IFRS at January 1, 2004**	
Assets						
Property, plant and equipment		3,967				3,967
Intangible assets		590		(166)		424
Financial noncurrent assets:						
– deferred tax assets	790		145		935	
– nonconsolidated companies	353				353	
– other financial noncurrent assets	723		(395)		328	
		1,866		(250)		1,616
Total noncurrent assets		6,423		(416)		6,007
Inventories	2,133		(14)		2,119	
Income tax receivable	161				161	
Trade and other receivables	2,510		8		2,518	
Cash and cash equivalents	727				727	
Total current assets		5,531		(6)		5,525
Total assets		11,954		(422)		11,532
Equity						
Subscribed share capital	572				572	
Additional paid-in capital	1,803				1,803	
Cumulative translation differences	(1,045)		1,045			
Other statutory reserves	85				85	
Other reserves, minimum pension liability, and undistributed profits	1,087		(1,522)		(435)	
Group shareholders' equity		2,502		(477)		2,025
Minority interest		140				140
Total equity		2,642		(477)		2,165
Liabilities						
Provisions	3,332		(408)		2,924	
Deferred income			88		88	
Deferred tax liabilities	591		(325)		266	
Long-term borrowings	2,677				2,677	
Total noncurrent liabilities		6,600		(645)		5,955
Short-term borrowings	441		40		481	
Income tax payable	177		90		267	
Trade and other payables	2,094		(46)		2,048	
Current portion of provisions			616		616	
Total current liabilities		2,712		700		3,412
Total equity and liabilities		11,954		(422)		11,532

CONSOLIDATED STATEMENT OF INCOME
Reconciliation of Profit for 2004

Millions of euros	Previous GAAP		Effect of transition to IFRS		IFRS	
Revenues		12,688		145		12,833
Cost of sales		(6,851)		26		(6,825)
Gross profit		5,837		171		6,008
Selling expenses	(3,255)		1		(3,254)	
Research and development expenses	(823)		7		(816)	
General and administrative expenses	(676)		2		(674)	
Other operating income / (expenses)	46		(47)		(1)	
Incidentals:						
– special benefits	60		24		84	
– results on divestments	509		70		579	
– restructuring and impairment charges	(199)		2		(197)	
– charges related to major legal, antitrust, and environmental cases	(199)		(3)		(202)	
		(4,537)		56		(4,481)
Operating income		1,300		227		1,527
Financing charges, net		(123)		(21)		(144)
Operating income less net financing charges		1,177		206		1,383
Taxes		(298)		(114)		(412)
Earnings of consolidated companies, after tax		879		92		971
Earnings from nonconsolidated companies		12		(2)		10
Profit for the period		891		90		981
Minority interest, attributable to minority shareholders		(35)		(1)		(36)
Net income, attributable to the holders of equity		856		89		945
In EUR						
Basic net income per share		3.00				3.31
Diluted net income per share		2.99				3.30

CONSOLIDATED BALANCE SHEET
As at December 31, 2004

Millions of euros	**Previous GAAP, at December 31, 2004**		**Effect of transition to IFRS**		**IFRS at December 31, 2004**	
Assets						
Property, plant and equipment		3,535				3,535
Intangible assets		561		(113)		448
Financial noncurrent assets:						
– deferred tax assets	705		89		794	
– nonconsolidated companies	318				318	
– other financial noncurrent assets	730		(424)		306	
		1,753		(335)		1,418
Total noncurrent assets		5,849		(448)		5,401
Inventories	1,978				1,978	
Income tax receivable	210				210	
Trade and other receivables	2,557		(6)		2,551	
Cash and cash equivalents	1,811				1,811	
Assets classified as held for sale						
Total current assets		6,556		(6)		6,550
Total assets		12,405		(454)		11,951
Equity						
Subscribed share capital	572				572	
Additional paid-in capital	1,803				1,803	
Cumulative translation differences	(1,070)		1,050		(20)	
Other statutory reserves	85				85	
Other reserves, minimum pension liability, and undistributed profits	1,646		(1,481)		165	
Group shareholders' equity		3,036		(431)		2,605
Minority interest		140				140
Total equity		3,176		(431)		2,745
Liabilities						
Provisions	3,240		(363)		2,877	
Deferred income			56		56	
Deferred tax liabilities	479		(335)		144	
Long-term borrowings	2,694		(302)		2,392	
Total noncurrent liabilities		6,413		(944)		5,469
Short-term borrowings	258		302		560	
Income tax payable	350		118		468	
Trade and other payables	2,208		1		2,209	
Current portion of provisions			500		500	
Total current liabilities		2,816		921		3,737
Total equity and liabilities		12,405		(454)		11,951

RECONCILIATION OF EQUITY

Millions of euros	Capital and reserves	Minimum pension liability	Shareholders' equity
Previous GAAP shareholders' equity at December 31, 2004	3,795	(759)	3,036
Pensions and other postretirement benefits	(1,193)	759	(434)
Deferred taxes on intercompany profit	33		33
Termination of goodwill amortization	19		19
Company P payment	(45)		(45)
Discounting of provisions	20		20
Other long-term employee benefits	(15)		(15)
Share-based payments	(10)		(10)
Other	1		1
IFRS shareholders' equity at December 31, 2004	**2,605**		**2,605**

Millions of euros	IFRS	Previous GAAP
Subscribed share capital	572	572
Additional paid-in capital	1,803	1,803
Statutory reserves	85	85
Cumulative translation differences	(20)	(1,070)
Other reserves and undistributed profit	165	2,405
Capital and reserves	2,605	3,795
Minimum pension liability		(759)
Shareholders' equity	**2,605**	**3,036**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2004

Millions of euros	**Previous GAAP**		**Effect of transition to IFRS**		**IFRS**	
Profit for the period	891		90		981	
Adjustments to reconcile earnings to cash provided from operating activities:						
Depreciation and amortization	593		(28)		565	
Impairment losses	74				74	
Financing charges			144		144	
Earnings from nonconsolidated companies	(52)				(52)	
Taxes recognized in income			415		415	
Operating profit before changes in working capital and provisions		1,506		621		2,127
Changes in trade and other receivables	(169)		6		(163)	
Changes in inventories	(23)				(23)	
Changes in trade and other payables	348		(194)		154	
Changes in provisions	(107)		44		(63)	
Other	104		(108)		(4)	
		153		(252)		(99)
Cash generated by operations		1,659		369		2,028
Interest paid			(139)		(139)	
Income taxes (paid)/received			(217)		(217)	
Pretax gain on divestments	(509)		(70)		(579)	
		(509)		(426)		(935)
Net cash from operating activities		1,150		(57)		1,093
Capital expenditures	(551)				(551)	
Investments in intangible assets	(28)				(28)	
Interest received			21		21	
Repayments in nonconsolidated companies	(29)		40		11	
Dividends received	123				123	
Acquisition of consolidated companies[1]	(80)				(80)	
Proceeds from sale of interests[1]	1,036				1,036	
Other changes in noncurrent assets	6		(4)		2	
Net cash from investing activities		477		57		534
New long-term borrowings	22				22	
Repayment of borrowings	(191)				(191)	
Dividends	(366)				(366)	
Net cash from financing activities		(535)				(535)
Net change in cash and cash equivalents		1,092		–		1,092
Cash and cash equivalents at January 1		727				727
Effect of exchange rate changes on cash and cash equivalents		(8)				(8)
Cash and cash equivalents at December 31		1,811		–		1,811

1 Net of cash acquired or disposed of.

IFRS standards with a prospective impact

Financial Instruments

IFRS as applied for the restated figures of 2004 did not include standards IAS 32 and 39 for financial instruments. The Group opted for the transition provision of IFRS 1 to apply these standards as from January 1, 2005. The after-tax effect of the implementation of IAS 32 and 39 on January 1, 2005, on balance, was a charge to shareholders' equity of EUR 9 million. The principal effects of the implementation of IAS 32 and 39 are described per instrument below.

Long-Term Borrowings

Long-term borrowings used to be valued at nominal value, any placement costs or premium or discount on issue used to be amortized on a straight line basis. IFRS prescribes that such borrowings are valued at amortized cost applying the effective interest rate method. The effect on shareholders' equity at January 1, 2005 was a credit of EUR 1 million after taxes.

Cash and Cash Equivalents

Short-term investments used to be valued at the lower of cost or market value. Under IFRS they need to be valued at market value. The effect on shareholders' equity at January 1, 2005 was an after-tax credit of EUR 1 million.

Forward Exchange Contracts

Forward exchange contracts concluded to hedge receivables or payables in foreign currency used to be valued at spot rates prevailing at the balance sheet date. Foreign currency hedges of anticipatory transactions or firm commitments used to be deferred in the balance sheet until the hedged transactions had been reflected in the accounts. Forward exchange contracts under IFRS need to be valued at fair value in the balance sheet and changes in fair value are to be recognized in the statement of income. The Group in principle will not apply hedge accounting for these types of contracts. The effect on shareholders' equity at January 1, 2005 was an after-tax charge of EUR 1 million.

The Group used to net the value of the forward exchange contracts per contract partner. Under IFRS such netting is not allowed. As a consequence, all contracts are recognized separately on the appropriate lines in the balance sheet.

Interest Rate Derivatives

The Group holds certain interest swaps and currency swaps to hedge fixed-rate interest-bearing borrowings and in some cases foreign currency exchange risks. Interest rate derivatives in a hedge relationship used not to be valued in the balance sheet. The interest on the fixed and floating rate parts were recognized in the statement of income on an accrual basis. The cross currency element in the interest rate currency swaps was recognized in the balance sheet at the spot rate prevailing at the balance sheet date. The changes in the values so calculated were recognized in the statement of income to offset the currency exchange differences on the borrowings in foreign currency. Under IFRS these contracts have to be valued at fair value in the balance sheet. The Group applies fair value hedge accounting for these contracts. The impact on shareholders' equity at January 1, 2005, on balance, was an after-tax charge of EUR 5 million. This is the combined effect of the fair value adjustment of the interest-rate derivatives and the fair value adjustment of the underlying bonds. The Group also had some forward rate agreements, for which no hedge accounting is applied. The effect on shareholders' equity per January 1, 2005, is negligible. It should be noted that the Group used to net the recorded book value of the interest derivatives with the book value of the loans. Under IFRS this netting is not allowed. The instruments under IFRS are now recorded separately on the appropriate line items in the balance sheet.

Commodities

In order to cover the price risk of natural gas and electricity, the Group has entered into certain petroleum swaps and gas and electricity futures, which have to be recognized at fair value in the balance sheet. For the electricity related contracts cash flow hedge accounting is applied. For the other contracts no hedge accounting is applied. The effect on shareholders' equity as of January 1, 2005 was an after tax charge of EUR 5 million.

CONSOLIDATED BALANCE SHEET
As at January 1, 2005, after implementation of IAS 32 and 39

Millions of euros	IFRS at December 31, 2004		Effect of IAS 32 & 39		IFRS at January 1, 2005	
Assets						
Property, plant and equipment		3,535				3,535
Intangible assets		448				448
Financial noncurrent assets:						
– deferred tax assets	794		5		799	
– nonconsolidated companies	318				318	
– other financial noncurrent assets	306		259		565	
		1,418		264		1,682
Total noncurrent assets		5,401		264		5,665
Inventories	1,978				1,978	
Income tax receivable	210				210	
Trade and other receivables	2,551		30		2,581	
Cash and cash equivalents	1,811		1		1,812	
Total current assets		6,550		31		6,581
Total assets		11,951		295		12,246
Equity						
Subscribed share capital	572				572	
Additional paid-in capital	1,803				1,803	
Cumulative translation differences	(20)				(20)	
Other statutory reserves	85				85	
Other reserves, and undistributed profits	165		(9)		156	
Group shareholders' equity		2,605		(9)		2,596
Minority interest		140				140
Total equity		2,745		(9)		2,736
Liabilities						
Provisions	2,877		5		2,882	
Deferred income	56				56	
Deferred tax liabilities	144				144	
Long-term borrowings	2,392		289		2,681	
Total noncurrent liabilities		5,469		294		5,763
Short-term borrowings	560				560	
Income tax payable	468				468	
Trade and other payables	2,209		10		2,219	
Current portion of provisions	500				500	
Total current liabilities		3,737		10		3,747
Total equity and liabilities		11,951		295		12,246

(25) Subsequent Events

In March 2006, the Group sold a Coatings plant near Barcelona, Spain. This resulted in an after tax book profit of approximately EUR 75 million.

In 2006, the Group entered into a plea agreement with the US Department of Justice resolving its investigation of alleged antitrust violations in the hydrogen peroxides business, pursuant to which the Group was sentenced by the US Federal Court for the Northern District of California on May 17, 2006, to pay a fine of USD 32 million. In addition, in April of 2006, the Group was informed by the EU Commission on its decision to fine the Group for alleged violations of the EU competition law rules in hydrogen peroxides, imposing a fine of EUR 25 million. The Group will file an appeal against this decision. As a consequence of these developments, the Company added EUR 31 million to the provision for antitrust cases in the first quarter of 2006.

In the first quarter of 2006, the Group recognized restructuring and impairment charges of EUR 42 million predominantly related to restructuring activities at Chemicals sites.