Annual Report 2006

basell
Polyolefins

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Message from Volker Trautz, CEO

Basell's first full year since being acquired by the Access Industries group was exceptional in many respects. In 2006, the company strengthened its position as the global leader in polyolefins; enhanced a legacy of growth through innovation that has been cultivated for more than half a century, and also achieved its best-ever results in financial performance and working safely.

Indeed, there were many highlights in Basell in 2006.

Financial performance. The results were the best since the formation of the company in October 2000. This record-breaking performance – including an EBITDA value in excess of €1 billion – included strong contributions from all three businesses.

Sales. Through the development of important new business and the reinvigoration of long-standing and highly valued customer associations, Basell recorded all-time highs for sales in polypropylene, polyethylene, advanced polyolefins and catalysts.

Technology. The Licensing business again affirmed Basell's technological leadership in polyolefins by signing new agreements for 2.5 million tonnes of annual capacity (including the company's 200th polyolefin process license) while also establishing the new *Spherizone* process as the current industry standard for polypropylene manufacturing.

Expansion. The company formed two new joint ventures in Saudi Arabia, SEPC and Al-Waha, and upgraded its presence in Asia Pacific by increasing its participation in three joint ventures – HMC Polymers (Thailand), PolyMirae (Korea) and SunAllomer (Japan) – while also selling its position in Taiwan Polypropylene Company. Additionally, Basell was selected by the government of Kazakhstan as a strategic partner for the development of the petrochemical industry in that country.

Feedstock integration. The acquisition of the Ruhr Öl GmbH steam cracker in Münchsmünster, Germany substantially increased Basell's European feedstock integration. In addition, the decision to build a new *Hostalen* Advanced Cascade Process high density polyethylene plant at the same industrial park will enhance the company's manufacturing asset footprint.

All across the company there are challenging goals for 2007 and beyond – each designed to strengthen Basell's industry leadership in the face of significant business and competitive pressures. These goals include:

Safety first. Quite simply, the expectation is further improvement in every aspect of working safely, always striving to be 'the best of the best' in the polyolefins industry.

Asset reliability and operational excellence. Further improvement in the company's manufacturing operations is critical to Basell's commitment to have the highest quality products supplied reliably to customers around the world.

New markets. Pursuing new joint venture projects and expanding Basell's presence in high-growth, feedstock-advantaged regions are key elements in further strengthening the company. In 2007, initiatives in these areas will include building a second polypropylene compounding plant in China and inaugurating the company's first compounding line in Mexico.

The 2007 outlook is favourable but will depend on growth in Basell's key markets. The expectation is that new polyolefin products and applications will support growth in consumer demand for plastics and that inter-material substitution will accelerate as pressure for environmentally friendly technological solutions increases. Asia will be the growth engine with demand growth for polypropylene and polyethylene, and the more mature markets of Europe and North America will see growth at levels lower than the world average.

Although the evolution of the global economic cycle can – and usually does – provide both negative and positive surprises, Basell faces the future confidently. This conviction is based upon a sound business strategy and a readiness to pursue opportunities to grow and further strengthen the company.

Volker Trautz,
President and Chief Executive Officer,
Basell Polyolefins

About Basell

The spirit of discovery that created the polyolefins industry and the two most widely used plastic materials in the world – polypropylene and polyethylene – is the foundation upon which Basell's legacy has been built for more than half a century.

Catalyst produced by Basell

BASELL IS ORGANISED INTO THREE BUSINESSES

Technology Business: **licensing polyolefin processes, developing, producing and selling polyolefin catalysts, technology services and new ventures**

Advanced Polyolefins Business: **manufacturing and selling polypropylene compounds and other specialty products**

Polyolefins Business: **manufacturing and selling polypropylene and polyethylene**

Today, Basell is the global leader in polyolefins technology, production and marketing. It is the largest producer of polypropylene and advanced polyolefin products; a leading supplier of polyethylene and catalysts, and the industry leader in licensing polypropylene and polyethylene processes, including providing technical services for its proprietary technologies.

Basell, together with its joint ventures, has manufacturing facilities in 19 countries and research & development and technical support centres in Europe, North America and the Asia-Pacific region. The company's products are sold in more than 120 countries.

An industry's beginnings

Polyethylene was first synthesized by a German chemist, Hans von Pechmann, who prepared it by accident in 1898. The first industrial production of low density polyethylene (LDPE) was in 1939 after which researchers at Basell predecessor companies advanced this breakthrough by producing LDPE through the discovery of the high pressure tubular process in the 1940s. The first commercial plant was in Ludwigshafen, Germany and was owned by Basell predecessor company BASF AG.

In 1953, Professor Karl Ziegler and his research staff at the Max-Planck-Institut für Kohlenforschung in Germany discovered the catalytic process for manufacturing high density polyethylene (HDPE). The first full-scale HDPE plant was started up by Basell predecessor company Hoechst AG in Frankfurt, Germany in 1955.

Basell's senior management team and areas of responsibility (from left): Rick Gutierrez, Human Resources and Corporate Communications; **Massimo Covezzi,** Research & Development; **Just Jansz,** Technology Business; **Eberhard Faller,** Corporate Controller and Deputy Chief Financial Officer; **Manfred Dressel,** Manufacturing & Services; **Anton de Vries,** Advanced Polyolefins Business; **Volker Trautz,** President and Chief Executive Officer; **Ian Dunn,** Polyolefins International; **Michael Mulrooney,** Polyolefins North America; **Alan Bigman,** Chief Financial Officer; **Werner Breuers,** Polyolefins Europe; **Cees Los,** General Counsel.

Shortly after Ziegler's discovery, Professor Giulio Natta in 1954, working for yet another Basell predecessor company, Montecatini, in Milan, Italy, produced solid polypropylene (PP) for the first time. This resulted in the first industrial production of PP in 1957, in Ferrara, Italy.

Ziegler and Natta shared the great distinction of the Nobel Prize for Chemistry awarded in 1963 for their work in bringing about today's polyolefins industry. Basell is proud of this history and continues to highly value innovation.

Technology Business

For Basell, creating innovative polyolefin products is a way of life. A focus on close integration among the company's marketing, R&D and manufacturing units ensures that new developments in polyolefin catalysts, processes and products are continuously offered to customers.

Basell is the leading licensor of polyolefins process technologies. The company's *Spheripol* technology is the most widely used manufacturing process for polypropylene and the *Spherizone* process, which has been licensed by Basell since 2004, is the new benchmark for polypropylene production.

Polypropylene blown film production line

***Spheripol* polypropylene production unit at Basell's Louisiana, USA site**

Basell's portfolio of licensed technologies and associated technical services is comprised of:

- ***Spherizone*** – latest generation polypropylene technology based on new multi-zone circulating reactor technology
- ***Spheripol*** – leading polypropylene technology for the production of homopolymer, random and heterophasic copolymers
- ***Spherilene*** – advanced swing gas phase process for the production of LLDPE, MDPE and HDPE
- ***Hostalen*** – leading low-pressure slurry process for the production of bimodal HDPE
- ***Lupotech* T** – leading high-pressure tubular reactor process for the production of LDPE and EVA copolymers
- ***Metocene* PP** – technology for the production of specialty polypropylene products using single-site catalyst systems

Basell is also the leading supplier of polyolefin catalysts and its family of advanced catalysts provides optimum performance for Basell's process technologies as well as other third party processes. Basell's ability to offer a complete technology portfolio enables polyolefin producers to have a single provider for all polyolefin processes and catalyst systems.

Basell's portfolio of catalyst systems is comprised of:

- ***Avant* ZN** – Ziegler-Natta catalysts for polypropylene
- ***Avant* Z** – Ziegler catalysts for polyethylene
- ***Avant* C** – Chromium catalysts for polyethylene
- ***Avant* M** – Metallocene catalysts for polypropylene

Advanced Polyolefins Business

Advanced Polyolefins is a global business that comprises an innovative family of specialty polyolefins – highly engineered polyolefin materials and polypropylene compounds that have enhanced characteristics. Generally formulated for specific applications, advanced polyolefins are in many cases proprietary and usually priced according to their value in the application in which they are used. They are characterised by exceptional cost/performance balance and they are formulated to include properties such as superior paint adhesion, scratch resistance, dimensional stability, low thermal expansion, good low temperature impact and soft touch.

Basell's advanced polyolefins bring together the cost-effectiveness of polyolefins with the performance of engineering resins, thereby providing significant customer value for a vast array of end uses.

There are three main Advanced Polyolefins' product lines:

- **Polypropylene-based composite materials and alloys (PCMA)** are made with additives ranging from rubber, which provides softness and elasticity, to talc and mineral fillers and glass fibres, for stability and rigidity. Properties can be tailored to fit specific applications;
- ***Catalloy* process resins** are produced using a unique combination of catalysts, process technology and monomers and provide enormous capabilities for tailoring product properties. *Catalloy* process products cover a range from very soft to extremely rigid properties, and
- **Polybutene-1 resins** for use in seal peel, film modification, hot melt and polyolefin modification applications.

(Note: Basell does not sell polybutene-1 for use in pipe applications intended for use in North America, and requires its customers not to sell products made from PB-1 into North America pipe applications.)

Basell high performance resins are used to produce components for Jaguar

Polyolefins Business

Polyolefins, the term used to collectively describe polypropylene and polyethylene, are the world's most widely used plastic materials. Polyolefins is also the largest of Basell's three core businesses; this business is organised by region: Europe, North America and International.

The three main types of polypropylene produced and marketed by Basell are:

Homopolymers, which have high heat resistance and good rigidity are used in a vast range of customer applications;

Copolymers, which are made by incorporating different monomers, are extremely resilient materials and have wide uses in automotive and industrial applications; and

Random copolymers, which are made by introducing ethylene links into the polymer chain, tend to have improved optical properties, and are used by customers in applications such as packaging where transparency is required.

By expanding the range of polypropylene's properties, Basell can continue to reinvent the resin's end uses, often displacing traditional materials and other plastics.

Polyethylene produced by Basell is used in a wide variety of applications:

High density polyethylene (HDPE), which is dense, strong and stiff, is used by customers for blow-moulded bottles and injection moulded pails, bottle caps and toys;

Medium density polyethylene (MDPE), which has a high degree of resistance to chemicals and is very easy to keep clean, is used by customers for items such as tanks and floats;

Low density polyethylene (LDPE), which is highly flexible, is used by customers for packaging film, trash and grocery bags, agricultural mulch, wire and cable insulation, squeeze bottles, toys and housewares.

Right: Basell polypropylene is used to produce these clear blow moulded water bottles

Below: Clear frozen food packaging produced using Basell's innovative polypropylene resins

Innovation

New catalysts and process technologies have enabled the development and marketing of new products and applications which contributed significantly to Basell's success in 2006.

'As the technology leader in polyolefins we know that we always must be innovative in the way we produce new products and in the way we meet the unique needs of our customers around the world.'

Massimo Covezzi, President, Research & Development

Continuous improvement of the *Avant* catalyst portfolio was the focus of a successful set of new developments in 2006.

In addition, new polyethylene grades developed using the *Hostalen* Advanced Cascade Process (ACP) were successfully introduced for blow moulding, caps & closures, film, medical and pipe applications. These grades, which have outstanding processability and an excellent balance of mechanical and optical properties, are providing a clear advantage to Basell customers in their efforts to differentiate their products.

New and improved polypropylene products were developed by leveraging Basell's proprietary technologies – in particular, the *Spherizone* process. This manufacturing process makes possible the development of products that are not attainable using other older polypropylene technologies.

For example, with the *Spherizone* process, new products have been successfully introduced that combine the stiffness of a homopolymer with the transparency and processability of a random copolymer, offering a material rejuvenation in both traditional and new market segments. Now, innovative products with very high melt strengths such as *Higran* grades are being introduced. New heterophasic copolymers combining very high stiffness with outstanding low temperature impact resistance are being used in sewage pipe applications, competing against traditional materials.

New grades, introduced under the brand name *Clyrell*, combine transparency and low temperature impact resistance. These grades include new low stress whitening impact copolymers for car starter batteries, food packaging and appliances and new high transparency random copolymers for blown film, BOPP and cast film applications.

As a result of the successful introduction of *Metocene* PP in textile and packaging applications, in 2006 Basell began licensing this technology, which is used in the production of polyolefins based on single-site catalyst systems.

Improved generations of materials produced using Basell's *Catalloy* process technology have been further reinforcing market leadership in important segments such as automotive and building and construction.

New applications for polyolefins were also developed by market-oriented innovation teams who have been focusing on inter-material replacement opportunities. These new Basell grades are displacing traditional materials and technical thermoplastics. Customer needs have been further addressed through innovation workshops at strategic Basell accounts.

Basell continuously focuses its developments in catalysts, processes, products and applications in order to deliver unique solutions that respond and anticipate the needs of our customers and the new trends in today's dynamic market environment.

Left: Blown film produced with Basell polyethylene resins

TRR
1.6

REVENUE
€10.5 billion

NIAT
€277 million

EBITDA
€1,030 million

NET CASH FLOW FROM OPERATING ACTIVITIES
€656 million

Highlights of 2006

WORLD-CLASS WORKPLACE SAFETY

Basell's safety record, as measured by Total Recordable Rate for employees and contractors, was the best in its history and among the best in the industry.

BEST-EVER FINANCIAL RESULTS

Basell's 2006 results were the best since the formation of the company in October 2000 – a record-breaking performance that included an EBITDA value in excess of €1 billion and strong contributions from all three businesses.

TECHNOLOGY LEADERSHIP AFFIRMED

The Licensing business signed new process license agreements for 2.5 million tonnes of annual capacity (including Basell's 200th polyolefin process license) while further establishing the *Spherizone* process as the new industry standard in polypropylene manufacturing.

ADVANCED POLYOLEFINS PERFORMANCE ENHANCED

The Advanced Polyolefins Business had a very strong performance in 2006, including an EBITDA result 65 % ahead of the previous year. Sales volumes were 14 % higher than 2005 and there was a significant improvement in the *Catalloy* process resins business.

2 NEW JOINT VENTURES FORMED

The establishment of two new Saudi Arabia joint ventures, SEPC and Al-Waha, further strengthened Basell's presence in this feedstock-rich section of the world.

CATALYST BUSINESS STRENGTHENED

The acquisition of Akzo Nobel's Polymerization Catalysts & Components business in Edison, New Jersey, USA and the completion of a project to expand the capacity of a manufacturing facility in Ferrara, Italy by 40 % strengthened Basell's catalyst business.

FEEDSTOCK INTEGRATION INCREASED

The purchase of the steam cracker at the Münchsmünster, Germany petrochemical site from Ruhr Öl GmbH (ROG) was another key step in strengthening Basell's position in ethylene, propylene and other cracker products in Europe.

GROWTH IN EASTERN EUROPE MARKET

Building on the success of the Basell Orlen Polyolefins joint venture in Poland, Basell opened a new sales office in Moscow and is working with the government of Kazakhstan as strategic partner for the development of the petrochemical industry in that country.

Strategic Themes

Basell faces significant business and competitive pressures and recognises the necessity to constantly create sustainable value for its shareholder, while operating in a socially responsible manner. In order to achieve a strong financial performance, Basell has defined several strategic themes and developed guidelines to face its key strategic challenges. The four Basell strategic themes are:

Portfolio and geographical mix

Basell will continue to develop the enhanced value derived from a diversified portfolio in the Polyolefins, Advanced Polyolefins and Technology businesses, particularly through investments in profitable growth opportunities in the developing regions. To access such opportunities, Basell will leverage its position in licensing, catalyst and global marketing leadership.

Integration and cost advantaged feedstock

Basell will continue to seek opportunities to make its polyolefins position more robust by widening its access to the full value chain from olefins to polyolefins products.

Strengthen competitive position in polyolefins

Basell develops alternative offerings and sets up appropriate customer facing organisations in order to meet a wider range of requirements and expectations from customers while bringing costs in line with the market offering. The manufacturing footprint will be continuously reviewed to ensure assets are leading in their supply markets.

Enhance position in differentiated markets

Basell's leadership in the differentiated markets will be further expanded by continued investment in targeted R&D programmes which will enhance the product offering from technologies and catalysts to engineered polyolefin materials.

Technology Business

Basell is the technology leader in polyolefins. The company's Technology Business has four cornerstones: process licensing, catalyst sales, technology services and new ventures. Basell's licensing portfolio is the broadest in its industry and consists of the *Spheripol* process, the most widely used polypropylene manufacturing technology; the new *Spherizone* process, which is the new industry benchmark for polypropylene production; *Metocene* PP technology, and a complete range of polyethylene technologies, *Hostalen*, *Spherilene* and *Lupotech* T. Basell also produces and supplies catalysts for the manufacturing of polypropylene and polyethylene under the *Avant* trademark. The Technology Business' technical services unit expertly supports licensees around the world and its new ventures business unit identifies and assesses new opportunities for expanding Basell's global joint venture network.

AT A GLANCE

- **Excellent financial results**
- **200th polyolefin license sold**
- **Continued emergence of *Spherizone* process**
- **Launch of *Metocene* PP licensing**
- **Expansion of catalyst business**
- **Successfully started up 12 licensed plants**
- **2 new joint ventures formed in Saudi Arabia**

'With four new license agreements signed in 2006, the continuing emergence of Basell's *Spherizone* technology as the new benchmark for the production of polypropylene in all parts of the world was a top highlight for our business.'

Just Jansz, President, Technology Business

The Technology Business performed very well in 2006, exceeding its financial goals, including an EBITDA 25 % ahead of the previous year, and taking full advantage of the positive polyolefins industry climate.

In licensing, Basell retained its leading global position by signing new agreements for 2,500 kta of annual capacity; of this figure, about 80 % of the new agreements were for polypropylene plants, reflecting the different investment cycles for polypropylene and polyethylene. In 2005, Basell's licensing business was more heavily weighted toward polyethylene. Globally, close to 50 % of the polyolefin projects under construction are based on Basell technologies.

Among the main licensing achievements for Basell in 2006 was the continuing emergence of the *Spherizone* technology. *Spherizone* process plants can produce the full range of polypropylene grades,

***Hostalen* ACP technology plant at Basell Orlen Polyolefins joint venture in Poland**

as well as new families of propylene-based polymers with enhanced product properties. This process allows further development of new applications, down-gauging and material replacement. Last year, Basell signed four new *Spherizone* process licenses representing 1,200 kta

in annual capacity, and licenses for this technology have now been sold in all regions of the world.

Also in 2006, Basell began licensing its *Metocene* PP technology, which is used in the production of polyolefins based on single-site catalyst systems. *Metocene* PP technology can be adapted to virtually any polypropylene process and is a highly versatile technology that extends the product range of conventional PP.

Important steps were taken in 2006 to further develop the company's *Spherilene* gas phase technology for polyethylene by introducing a single reactor option – *Spherilene* S – featuring low investment and operating costs. *Spherilene* S process plants have true swing capability between HDPE and LLDPE since both products can be produced from the same Ziegler catalyst family. *Spherilene* S technology is designed to produce products with narrow and medium molecular weight distribution. The *Spherilene* technology also can be designed with two gas phase reactors in series – *Spherilene* C – for the production of bimodal grades with further enhanced properties.

During the year Basell celebrated the milestone of granting its 200th polyolefins process license.

Catalyst revenue grew by 7 % over 2005 as Basell took key steps to strengthen this vital element in polyolefin production. Basell purchased Akzo Nobel's Polymerisation Catalysts & Components business in Edison, New Jersey, USA and also completed a project to expand the capacity of its catalyst manufacturing facility in Ferrara, Italy by 40 %.

The Ferrara plant is the largest polyolefins catalyst manufacturing facility in the world. When combined with the Edison plant and the company's catalyst manufacturing facilities in Ludwigshafen and Frankfurt, Germany, Basell is uniquely positioned to serve the global polyolefins catalyst market.

The Technology Business' new ventures unit added two joint ventures in Saudi Arabia to a Basell portfolio that already included Saudi Polyolefins Company.

In technology services, Basell, in 2006, extended its offering to customers linked to Basell via licensing agreements. The achievements for this unit included the successful management of a record number of 12 licensed polyolefin plant start-ups and the delivery of seven process design packages. This unique track record helps to further strengthen Basell's reputation as a technology provider. A number of major Basell capital investment projects were successfully executed safely with zero TRR, on schedule and within budget in a challenging engineering and construction market.

Plant workers at Basell's Brindisi, Italy site

Advanced Polyolefins Business

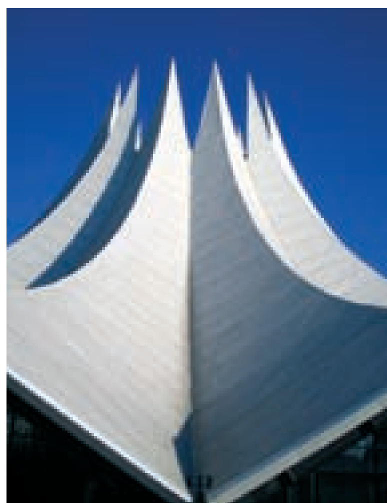
The Advanced Polyolefins Business provides tailored products for Basell customers primarily in the automotive, appliances, film, pipes and roofing sectors. There are three Advanced Polyolefins' business units: polypropylene-based composite materials and alloys (PCMA), *Catalloy* process resins and polybutene-1. Basell has the largest PCMA compounding capacity in the world and is the only manufacturer of *Catalloy* process resins. *Catalloy* process resins are hybrids of different polymers; they exhibit a wide range of properties, spanning from very soft to extremely rigid plastics. Polybutene-1 materials offer flexibility and outstanding durability; typical applications for these materials are seal-peel film, consumer packaging, piping and adhesives.

AT A GLANCE

- **14 % increase in sales volumes**
- **Excellent results in compounding operations**
- **Strong comeback for *Catalloy* process resins**
- **Growth driving expansion in China**
- **Reorganisation and tighter cost controls paying off**

'Strong performances from our new compounding plants in China and Brazil, a significant turnaround in the *Catalloy* process resins business and a 14 % increase in advanced polyolefins sales volumes were major factors in our success in 2006.'

Anton de Vries, President, Advanced Polyolefins Business



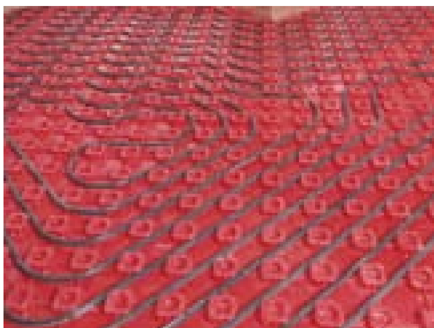
Basell's *Catalloy* process resins are used to produce roofing applications

The Advanced Polyolefins Business had a very strong performance in 2006, including an EBITDA result 65 % ahead of the previous year. Sales volumes were 14 % higher than 2005, with all three business units exceeding prior year levels.

Key factors in the significant year-to-year improvement were strong growth in sales volumes in a positive market environment and tighter cost controls due, in part, to a reorganisation of the business that took place in 2006. There were many success stories around the world for the Advanced Polyolefins Business.

Basell's PCMA operations in Europe and North America improved their results on the back of increased volumes to the automotive and electrical appliances sectors and continued cost control. The compounding operations in China and Brazil, where Basell's plants are new

Basell high performance resins are used to produce components for BMW



Photograph courtesy of Gabo

and state-of-the-art, performed very well in highly competitive environments. In both countries, Basell increased its compounded products market share.

Basell's strong PCMA presence in China and Brazil reinforces the company's strategy of combining its global technical and manufacturing expertise with local market knowledge to meet the requirements of a diverse customer base.

Inaugurated in 2005, Basell's Suzhou, China compounding plant is already being expanded to meet the growing demands of global automotive customers. Production capacity was increased by 15 kta to 27 kta in 2006. Also, due to business growth, the schedule for building a warehouse extension and creating a product development centre had to be advanced and these projects are now expected to be completed in the first half of 2007.

Basell inaugurated its new Brazilian polypropylene compounding plant in Pindamonhangaba, Sao Paulo, in March 2006 and the company is now moving ahead with plans to expand the capacity of the facility. Current capacity is 35 kt per year.

Left: Under-floor heating pipes produced using Basell's polybutene-1 resin

Below: Washer and dryer featuring components produced with Basell's *Hostacom* resins

The *Catalloy* process resins business demonstrated a significant improvement from 2005. This was a result of a number of factors, including an improved market presence and stronger commercial focus in all regions; commercialisation of several innovation projects, in particular some highly competitive grades launched into the North American film market; good market conditions in all regions, including very strong growth in single-ply roofing in North America; availability of new *Catalloy* process resins capacity at Lake Charles, Louisiana, and lower fixed costs and control of inventory.

A number of activities are under way to further improve the polybutene-1 results. They include increasing Basell's participation in pipe applications in under-floor heating systems and introducing speciality products designed to replace competing materials in high-end pipe applications.

Polyolefins Business

The Polyolefins Business encompasses Basell's polypropylene and polyethylene production, marketing and sales activities and is organised by region: Europe, North America and International. Polypropylene and polyethylene are highly versatile polyolefins, ranging from tough, rigid materials for pipes and car parts to soft, flexible fibres for textiles. Some polyolefins have high heat resistance for sterilisable containers, while others melt easily and can be used for heat-sealable food packaging. Through its strong commitment to research and development, Basell is continuously discovering new opportunities for polyolefins to replace other polymers and traditional materials in a wide range of applications.

AT A GLANCE

- **Excellent results in Europe and International**
- **Improvement initiatives under way in North America**
- **Feedstock integration strengthened in Europe**
- **2 new joint ventures formed in Saudi Arabia**
- **Restructuring actions continuing to pay off**

'By focusing on achieving improved spreads and fully leveraging what has been done to simplify our structure, systems and processes, we achieved our best results ever.'

Werner Breuers, President, Polyolefins Europe

'In the fast growing markets of the International region we focused on delivering value to customers based on Basell's leading product portfolio, and in building the capability of our local sales and supply chain teams. In doing so we delivered record financial results that were well above plan.'

Ian Dunn, President, Polyolefins International

'Our new "sweat the assets" strategy for improving our business is already paying off with increased sales volumes and our goal for 2007 is full capacity utilisation.'

Michael Mulrooney, President, Polyolefins North America

Overall, Basell's Polyolefins Business had excellent results in 2006, including an EBITDA of €667 million, 18 % or €102 million ahead of the previous year. This success was led by the European and International regions, both of which performed significantly ahead of their 2005 levels. In North America, the business did not meet plan targets amidst a second straight year of no market growth.

Polyolefins Europe, which had record-breaking results, was very effective at achieving improved spreads and also benefited from good demand and a tight supply. The region recorded its best-ever EBITDA result, which was 25 % ahead of 2005. In recent years this business has improved significantly by tailoring its offering – including effective use of Basell's online, 'no frills' channel to market, *Alastian* – to reflect

what customers want today in terms of polyolefin products and service as well as what they regard as affordable. In addition, key steps have been taken to simplify the European organisation's structure, systems and processes to further reduce costs.

In the past two years Basell has taken two major steps to strengthen the company's position in ethylene, propylene and other cracker products in Europe. In 2005, the company became 100 % owner of the Société du Craqueur de l'Aubette by acquiring the position of its former partner in the French cracker joint venture, Shell Pétrochimie Méditerranée. In 2006, Basell purchased the cracker at the Münchsmünster, Germany petrochemical site from Ruhr Öl GmbH (ROG), a joint venture between Deutsche BP and PdVSA, the Venezuelan state-owned oil company.

The Münchsmünster cracker will supply ethylene for the new *Hostalen* Advanced Cascade Process high density polyethylene plant Basell is building at Münchsmünster. The new unit is scheduled to start up in early 2009 and will replace the plant that was damaged by an explosion and fire in December 2005.

Below: Basell's polypropylene resin is used to produce nonwoven fibre material

Bottom: Pipe produced using Basell's *Hostalen* PP

Basell's *Clyrell* polypropylene resin is used in clear food packaging

Polyolefins International had an EBITDA result that was 50 % ahead of 2005. The wholly owned Basell polypropylene operations in Australia and Argentina both performed very well in a year when the company also made important strategic enhancements to its polyolefin joint venture portfolio; Basell formed two new joint ventures in the Middle East and made key changes in its Asia-Pacific ventures.

Saudi Ethylene and Polyethylene Company (SEPC), in which Basell is partnered with Tasnee Petrochemicals and Sahara Petrochemical Company, is constructing a cracker with a capacity of 1,000 kta of ethylene and 285 kta of propylene; a 400 kta high density polyethylene plant based on Basell's latest generation *Hostalen* ACP process, and a 400 kta low density polyethylene plant based on Basell's *Lupotech* T technology. Start up is planned for fourth quarter 2008.

The other new Middle East joint venture, Al-Waha Petrochemical Company, which is owned by Basell and Sahara Petrochemical Company, is constructing a propane dehydrogenation unit and a 450 kt polypropylene plant based on the *Spherizone* process, with commercial production foreseen in first quarter 2009.

In the Asia-Pacific region, Basell sold its position in Taiwan Polypropylene Company (TPP) to Lee Chang Yung Chemical Industry Corporation of Taiwan. In conjunction with this sale, Basell acquired all shares that had been held by TPP in three other Basell joint ventures, SunAllomer in Japan, PolyMirae in South Korea and HMC Polymers Company in Thailand; in doing so, Basell enhanced its ability to support the further development of these companies.

HMC is building a 300 kta *Spherizone* process plant at Map Ta Phut, Rayong, Thailand and an associated propane dehydrogenation plant to supply the required feedstock. Start up of both plants is expected in 2009. Also, PTT, the publicly listed natural resources company of Thailand, through the purchase of new and existing shares in HMC, became a 40 % owner of HMC last year.

Although Polyolefins North America's full-year EBITDA was disappointing and trailed 2005, the region made progress in its efforts to restore profitability and grow the business. Actions included initiating a 'sweat the assets' strategy in the latter part of 2006 to increase plant utilisation. In addition, the Polyolefins North America headquarters will be moved from Elkton, Maryland to a more cost-effective site before the end of 2007. This is consistent with actions taken in other parts of Basell in recent years to ensure that the company's business needs are being met in the most effective way.

The Mexican joint venture, Indelpro, is anticipating the completion of construction of the first North American *Spherizone* process polypropylene plant, a 300 kta state-of-the-art unit that is due on stream in 2008.

Manufacturing & Services

For the world's largest producer of polyolefins, the organisation with the largest number of employees is Manufacturing & Services. With production operations in 19 countries around the world, Manufacturing & Services has a vital role 24 hours a day, seven days a week in keeping Basell customers supplied with the products they want and when they want them.

'Our goal is to be highly responsive to the needs of our customers by applying our manufacturing resources in a safe, environmentally responsible and cost efficient manner.'

Manfred Dressel, Executive Vice President, Manufacturing & Services

Plant worker inspecting resin pellets

AT A GLANCE

Production in 19 countries

A focus on doing things effectively

Global 'best practice' approach

New cooperative initiative aims to make Basell even safer

Manufacturing & Services has three main areas of activity: management of manufacturing operations and service on a global basis; global corporate services, and global business services. Each of these functions has been designed to provide cost effective and world class operations and services. A key goal for each is maximising the opportunities to achieve synergies and apply 'best practice' across the whole of Basell in the areas of feedstock and material provision, corporate and manufacturing advice and support, and the execution of projects.

Manufacturing & Services focuses on doing things effectively – and this includes ongoing exchanges of key information about planning, reporting, asset utilisation and reliability, quality and cost structures. Safety is always the top priority.

In 2006, the management of Manufacturing & Services called on employees and contractors to help uncover safety issues that can be added to findings generated in audits and inspections in a new programme called 'Operational Integrity Initiative'.

The main goal of the initiative is to make Basell even safer while also improving overall operational integrity. The programme allows the operational experts at, for example, Basell sites in Europe and North America to exchange information with their counterparts at other locations – and it encourages employees in all plant roles to ask their colleagues in other parts of the company questions about a wide range of operational matters. Experienced machine operators in Europe and North America are now paying visits to similar plants at other sites to mirror their own issues against the picture they obtain from their hosting plant.

The Operational Integrity Initiative is intended to fill gaps by examining hard facts related to company facilities more closely, identifying shortcomings and developing and implementing the appropriate corrective measures by obtaining a bottom-up perspective.

Health, Safety and Environment

Basell is unwavering in its commitment to the highest standards of Health, Safety and Environmental (HSE) performance. This includes managing resources and impacts to create products that contribute to sustainable development.

AT A GLANCE

Best-in-class record in safety

A focus on employees' health as a business-critical matter

Environmentally responsible manufacturing processes

The polyolefin products the company creates are indispensable in many applications considered to be necessities in daily life. In designing, manufacturing and marketing these products at Basell, meticulous attention is paid to HSE critical factors such as worker health and safety. Furthermore, managing the environmental impact and resource intensity of Basell's operations are key elements in the company's product stewardship approach and HSE policy.

In the area of workplace safety, Basell has established a best-in-class record and is dedicated to continuously improving its approach to employee and contractor safety.

The safety trend in the chart on this page depicts the company's Total Recordable (Injury) Rate or TRR – a measure of the number of injuries per million man hours that covers both Basell employees and contractors (it equates roughly to the number of injuries per 500 workers per year).

Basell's commitment to safeguarding the well-being of its employees extends beyond ensuring that a safe working environment is provided. The company regards the health of its employees as a business-critical matter and, as such, encourages a holistic approach to health.

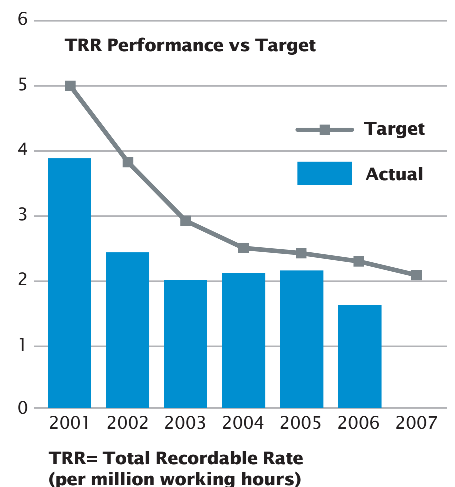
Elements in the company's approach to collaborating with its employees to promote good health include: stress management, work/life balance, coping with change, addressing the challenges of an ageing workforce, and dealing with long-term disabilities.

In addition, Basell has a long tradition of innovation in process development, where enhanced product capability has gone hand-in-hand with improved environmental impact and reduced resource intensity. Basell takes environmental performance criteria very seriously and has adopted the ISO 14001 Standard across all Basell manufacturing facilities.

At Basell's manufacturing sites, continuous control of the environmental-related aspects of operations and the ISO 14001 audit findings form the basis for improvement programmes that address issues regarded as local environmental priorities.

Key environmental indicators such as total energy consumption, solid waste generation and emissions to air and water are monitored and measured at the site level and that information is consolidated on a global basis.

Basell Safety Performance (TRR)
Employees & Contractors



6,850
EMPLOYEES

No. 1
IN POLYOLEFINS WORLDWIDE

10
JOINT VENTURES

PRODUCTION IN
19
COUNTRIES

SALES IN MORE THAN
120
COUNTRIES

Human Resources

Basell's success depends in large measure on the contributions of its employees and how they apply their talents and energy to achieve the company's business objectives. Key to Basell's standing as the global leader in polyolefins are the company's strong values around having a diverse workforce and its commitment to invest significantly in the development of employees – wherever they are working around the globe.

'One of Basell's main strengths is its diversity. A unique blend of talent, experiences and cultures that sets our company apart from the competition in a rigorous business environment.'

Rick Gutierrez, Executive Vice President, Human Resources and Corporate Communications

AT A GLANCE

- **6,850 employees worldwide**
- **Talent development is a key to success**
- **2 new offices opened and others were expanded**
- **A new focus on employee health awareness**

Talent development at Basell is a shared responsibility between the individual employee and management, and a key element in employee development is performance management. In 2006 there was significant improvement in this process; the upgrades included a better reporting system and increased focus on learning and personal development for staff in the professional and managerial categories.

A new tool was introduced to assist Human Resources staff and company managers in assessing the effectiveness of a wide range of training programmes, many of which are geared to aligning business objectives to individual tasks and targets. Basell provides recognition for individual achievements and the company's performance management system is closely linked to the reward mechanism.

Basell continuously looks for talented, ambitious and flexible men and women to join the company and put into practice what they have learned in university classrooms and laboratories. The hiring requirements, in any year, reflect a mix of seasoned professionals as well as those younger in their careers and those fresh from educational institutions. Operating successfully on a global basis means understanding the unique needs and goals of very diverse customers in widespread and vastly different markets. And for Basell this means having the best people possible – regardless of their identifying characteristics.

In 2006, the company recruited more than 250 new employees across all the geographies where Basell operates, with a particular emphasis on capturing opportunities in high growth areas for polyolefins. Last year, the company opened offices in Malaysia, Dubai and Moscow and expanded the workforce in other offices, including Mumbai and Istanbul.

At the end of 2006, Basell had 6,850 employees. Of that number, approximately 75 % work in Europe, where restructuring activities have rationalised the company's office and manufacturing footprints. Also last year, there was a reorganisation in North America, where approximately 15 % of Basell's employees reside. During 2006, Basell acquired a new catalyst business in Edison, New Jersey, USA and Human Resources had a key support role in the transition and integration of the workforce there to Basell systems, processes and structures.

The company's presence in Latin America, Asia Pacific and Africa and the Middle East is steadily growing and these regions now account for approximately 10 % of Basell's total employee population.

Basell management is placing increased attention on raising employee awareness about health and the impact that it can have on productivity.

Financial Statements 2006

Management Report

Alan Bigman,
Chief Financial Officer

2006 in Review

During 2006, the first full financial year since the sale of Basell to Access, the Group significantly strengthened its position as the global leader in polyolefins technology, production and marketing. In addition, the financial results marked new historic highs since Basell's formation in October 2000. The foundation for this record-breaking performance is based on Basell's technological innovation and leadership position, which dates back more than half a century and enabled an operating result of €619 million (EBITDA was in excess of €1 billion). All three of Basell's operational business units contributed strongly to the record financial results during a year when the company also achieved a best-ever safety performance underpinning its commitment to health and safety. The company also progressed with its strategic agenda through continued active portfolio management and further improvement of its feedstock integration through a cracker acquisition in Europe.

Technology Business – Licensing, Catalysts, Technology Services and New Ventures

The Licensing Business again demonstrated Basell's technological leadership by granting in 2006 new process licenses for 2.5 million tons of annual polyolefins capacity – including the sale of the company's 200th polyolefin process license – and establishing the *Spherizone* process technology as the new global industry standard in polypropylene.

In the Catalyst business, revenue grew further and exceeded the previous year's result[1] by 7 %. Basell continued investing in this business through the acquisition of Akzo's polymerisation catalyst operation at Edison, USA and the construction of a second catalyst production line at Basell's Ferrara, Italy site to ensure continued leadership and in anticipation of the growing polyolefin market capacity.

The 2006 Technology Business operating result of €104 million significantly exceeded the 2005 result even when excluding the effect of a new accounting policy for license income recognition, as described in note 4, which the company adopted in 2006 to better reflect the economic substance of all underlying licensing contracts.

Advanced Polyolefins Business (APO) – Polypropylene Compounds and other Specialty Products

The 2006 APO Business operating result of €110 million was much higher than the comparable figure for the previous year. Also, EBITDA strengthened by 60 % on a like-for-like basis excluding the earnings from the PCMA operations in Argentina and Brazil (both acquired 1 September 2005). This achievement is based on strong volume growth (+14 %), particularly in PCMA products and *Catalloy* process grades; an increase in higher value products, and cost reductions attained from business restructuring initiatives. These included an additional optimisation of the company's PCMA asset footprint in both North America and Europe as well as investments in new capacities: a *Catalloy* process plant in North America and PCMA plants in Brazil and China. The capacities of the company's state-of-the-art plants in Brazil and China will be expanded near term to match future market growth.

Polyolefins Business – Polyolefins Europe, North America and International

The 2006 Polyolefins Business reached an operating result of €401 million which is well ahead of 2005 despite continued volatility in feedstock prices and record high oil prices. The Group was able to increase focus on specialty grades.

The overall growth in the polyolefin markets in 2006 was lower than Basell's business plan premises. Nonetheless, the supply-demand balance tightened in Europe, particularly in the first part of the year, when converter inventory levels were low and virtually no new capacity came on stream. This resulted in good polymer spreads compensating for the low cracker margins achieved in the first three quarters of the year.

The rather favourable market environment in Europe and in the International region

1. As explained in note 1, comparative financial information for 2005 in these financial statements only includes 5 months since formation of the company. For a transparent comparison on a like-for-like basis this Management Report was prepared using the year 2005 pro-forma values based on the full year 2005.

was somewhat offset by the disappointing North American market. Basell's 2006 European sales volumes (+5 %) and spreads were ahead of 2005, whereas Basell's North American sales volumes were in line with the previous year but the extreme month to month monomer price volatility contributed to weaker spreads.

Strategic Measures

During 2006 Basell implemented a number of strategic measures.

In Asia Pacific, Basell sold its stake in Taiwan Polypropylene Company ('TPP') and as part of the transaction acquired TPP's positions held in other Basell joint ventures: SunAllomer Co. Ltd. (Japan), PolyMirae Co. Ltd. (South Korea) and HMC Polymers Co. Ltd. (Thailand). PTT, the publicly listed natural resources company in Thailand, became a partner in Basell's existing joint venture HMC. This allowed HMC to expand its business activities through the construction of a new propane dehydrogenation unit and a *Spherizone* process polypropylene plant.

In the Middle East, Basell participated in the formation of two new joint ventures in Saudi Arabia, SEPC and Al-Waha with the start ups planned for 2008/2009. The SEPC site will include a cracker, a *Hostalen* ACP high density polyethylene plant and a *Lupotech* T process low density polyethylene plant. The Al-Waha site will have a propane dehydrogenation unit and a *Spherizone* process polypropylene plant.

In Europe, Basell acquired from Ruhr Öl GmbH a steam cracker at Münchsmünster, Germany. This acquisition and the decision to rebuild a new *Hostalen* Advanced Cascade Process polyethylene plant at the site will improve Basell's feedstock integration in Europe and further enhance the asset footprint in the Polyolefins Business.

Looking forward, Basell was selected by the government of Kazakhstan as strategic partner for the development of the petrochemical industry, establishing a foundation for Basell in that fast growing country.

Special Items 2006

The company's financial performance was subject to several exceptional items which overall slightly impacted Profit before tax (- €7 million). Other income of €61 million resulted from expected net insurance proceeds recorded prior to the rebuild of the Münchsmünster plant, and gains on the sale of various assets and a part of the HMC stake. These amounts were offset by Other expenses totalling €56 million due to asset impairments in Canada and France and further restructuring and redundancy charges (further details of these items can be found in the Notes to these Financial Statements).

Outlook for 2007

The 2007 outlook remains good based on the expected continuation of Basell's successful market positioning and a solid supply demand picture. This assessment remains, however, dependent on the actual economic growth in these key markets, the underlying feedstock price development and other key economic parameters.

The first quarter polymer demand is expected to remain strong, which should push polymer prices higher. The Polyolefins Business is seeking to further enhance its financial performance by benefiting from the results of the recently acquired cracker, announced asset footprint changes and recent restructurings in North America and Europe.

Basell's strong financial performance enables the Company to explore refinancing options as well as value-enhancing acquisitions.

Consolidated Financial Statements Basell AF S.C.A.

For the year from 1 January 2006 to 31 December 2006

Basell AF S.C.A. is represented by Basell AFGP S.à.r.l.:

A. Bigman,	**R. Floor,**	**P. Kassin,**	**K. Potter,**
Manager	**Manager**	**Manager**	**Manager**

Luxembourg, 23 February 2007

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1. Consolidated balance sheet as at 31 December 2006

€ MILLION	NOTE	2006	2005*
ASSETS			
Property, plant and equipment	11	2,526	2,564
Intangible assets	12	417	541
Investments in associates and joint ventures	13	802	585
Other investments		13	10
Available-for-sale financial assets	14	45	41
Employee benefits	21	7	8
Deferred charges		23	25
Other financial assets		10	7
Deferred tax assets	23	22	80
Total non-current assets		**3,865**	**3,861**
Inventories	15	1,016	1,002
Receivables from tax authorities		152	160
Trade receivables	16	1,551	1,478
Other receivables	17	161	116
Prepayments		12	23
Cash and cash equivalents	18	670	590
Total current assets		**3,562**	**3,369**
Total assets		**7,427**	**7,230**
EQUITY			
Issued capital		50	50
Share premium		810	810
Other reserves		(3)	4
Retained earnings		413	134
Total equity	**19**	**1,270**	**998**
LIABILITIES			
Interest-bearing loans and borrowings	20	2,384	2,745
Employee benefits	21	504	514
Deferred income	22	90	36
Deferred tax liabilities	23	381	313
Provisions	24	289	305
Other non-current liabilities	25	46	27
Total non-current liabilities		**3,694**	**3,940**
Interest-bearing loans and borrowings	20	698	603
Trade payables	26	1,123	1,065
Other payables		10	29
Payables to tax authorities	27	147	149
Provisions	24	34	37
Employee benefits	21	119	99
Accrued liabilities	28	332	310
Total current liabilities		**2,463**	**2,292**
Total liabilities		**6,157**	**6,232**
Total equity and liabilities		**7,427**	**7,230**

* Adjusted to reflect change in accounting policies (note 4) and changes due to provisional accounting (note 6).

2. Consolidated income statement for the year ended 31 December 2006

€ MILLION	NOTE	2006	2005 (20 APR – 31 DEC)*
Revenue	10	10,495	3,769
Cost of sales		(9,388)	(3,425)
Gross profit		**1,107**	**344**
Other income	30	66	15
Selling expenses		(155)	(61)
General and administrative expenses		(240)	(123)
Research and development expenses		(103)	(48)
Other expenses	31	(56)	(47)
Operating profit before finance costs		**619**	**80**
Finance income		35	12
Finance expense		(273)	(124)
Net finance costs	**32**	**(238)**	**(112)**
Net results from associates and joint ventures accounted for under the equity method	13	102	25
Profit / (loss) before tax		**483**	**(7)**
Income tax (expense) / benefit	33	(207)	2
Excess of fair value of identifiable assets, liabilities and contingent liabilities of acquired businesses over the cost of the acquisition	9	1	139
Profit for the period		277	134

* Adjusted to reflect change in accounting policies (note 4) and changes due to provisional accounting (note 6).

3. Consolidated statement of changes in equity for the years 2005 and 2006

€ MILLION	SHARE CAPITAL	SHARE PREMIUM	OTHER RESERVES	RETAINED EARNINGS	TOTAL
Balance at 20 April 2005	–	–	–	–	–
Capital contribution 26 July 2005	50	810	–	–	860
Dutch capital tax duty levied on equity contributions to Basell Holdings B.V.	–	–	(4)	–	(4)
Total net capital contribution	**50**	**810**	**(4)**	**–**	**856**
Exchange differences on translating foreign operations	–	–	3	–	3
Change in fair value cash flow hedges	–	–	3	–	3
Change in fair value of cash flow hedges accounted for by associates and joint ventures	–	–	1	–	1
Unrealised gain for securities available for-sale accounted for by associates and joint ventures	–	–	1	–	1
Total income for the period recognised directly in equity	**–**	**–**	**8**	**–**	**8**
Profit for the period					
Including €14 million of profit related to a change in accounting policy (see note 4)	–	–	–	134	134
Total income for the period	**–**	**–**	**8**	**134**	**142**
Balance at 31 December 2005	**50**	**810**	**4**	**134**	**998**
Exchange differences on translating foreign operations	–	–	(19)	–	(19)
Change in fair value of cash flow hedges	–	–	12	–	12
Increase in fair value of cash flow hedges accounted for by a joint venture	–	–	1	–	1
Decrease in fair value of cash flow hedges accounted for by an associate	–	–	(1)	–	(1)
Realised revaluation step-up acquisition (see note 18)	–	–	–	2	2
Total income for the period recognised directly in equity	**–**	**–**	**(7)**	**2**	**(5)**
Profit for the period Including €25 million of profit related to a change in accounting policy (see note 4)	–	–	–	277	277
Total income for the period	**–**	**–**	**(7)**	**279**	**272**
Balance at 31 December 2006	**50**	**810**	**(3)**	**413**	**1,270**

4. Consolidated cash flow statement for the years 2005 and 2006

€ MILLION	2006	2005 (20 APR - 31 DEC)*
Profit for the period	277	134
Adjustments for:		
Excess of fair value of identifiable assets, liabilities and contingent liabilities of acquired business over the cost of the acquisition	(1)	(139)
Depreciation, amortisation and impairment losses	411	181
Associates and joint ventures: dividends more / (less) than net results	(69)	2
Gain on disposal of property, plant and equipment	(24)	–
Amortised financing costs	9	17
Interest expense	250	104
Interest income	(35)	(12)
Current taxation	77	64
Deferred taxation	130	(66)
Operating cash flow before changes in working capital and provisions	**1,025**	**285**
Movements in: inventories	(35)	(29)
trade receivables	(111)	(29)
other receivables and current assets	(79)	(57)
trade payables	84	129
other payables and accrued liabilities	56	130
provisions	(13)	11
other liabilities	29	18
Cash flow generated from operations	**956**	**458**
Interest paid	(222)	(78)
Interest received	34	12
Net income tax paid	(112)	(41)
Net cash flows from operating activities	**656**	**351**
Acquisitions, net of cash acquired	(78)	(2,117)
Directly attributable acquisition costs	–	(39)
Capital expenditures paid	(203)	(106)
Proceeds from disposal of property, plant and equipment	24	2
Sale (purchase) of available-for-sale financial assets	3	(4)
Proceeds from disposal of non-current assets held for sale	–	275
Proceeds from disposal of investments in associates	53	–
Investment in joint ventures and associates	(224)	(15)
Net cash flows used in investing activities	**(425)**	**(2,004)**
Cash obtained through capital contribution	–	860
New financing upon acquisition of Basell Group	–	2,742
Repayment of financing acquired upon acquisition of Basell Group	–	(1,142)
Financing and arrangement fees paid at acquisition of Basell Group	–	(70)
Repayments of financing after acquisition of Basell Group	(265)	(1,495)
New financing after acquisition of Basell Group	61	1,359
Financing and arrangement fees paid after acquisition of Basell Group	–	(13)
Movements in securitisation programmes	58	–
Net cash flows from financing activities	**(146)**	**2,241**
Net increase in cash and cash equivalents	**85**	**588**
Cash and cash equivalents at beginning of the period	590	–
Effect of exchange rate fluctuations on cash held	(5)	2
Cash and cash equivalents at end of the period	**670**	**590**

* Adjusted to reflect change in accounting policies (note 4) and changes due to provisional accounting (note 6).

Notes to the Consolidated Financial Statements

1. General information

Basell AF S.C.A., hereafter referred to as 'the Company', was incorporated in the Grand Duchy of Luxembourg as a private limited liability company on 20 April 2005 by its sole shareholder BI S.à r.l, a Luxembourg private limited liability company, affiliated with the Access Industries group.

The Company together with its directly and indirectly owned subsidiaries, hereafter referred to as 'the Group' or 'Basell', is a major player in polyolefins production, marketing and technology. The Group's main products are polypropylene, polyethylene and advanced polyolefins, which are complex, polyolefinic compounds and alloys. The Group actively licenses certain of its technologies and manufactures and sells catalysts. The Group, including its associates and joint ventures, has manufacturing activities in more than 20 countries around the world with customers in more than 120 countries across five continents.

These statements are prepared for the year from 1 January 2006 through 31 December 2006. The comparative information represents the period from 20 April 2005 (date of incorporation) through 31 December 2005 (end of first financial year). The financial statements comprise the Group and its interest in associates and joint ventures.

On 26 July 2005, BI S.à r.l., the Company's immediate shareholder, contributed to the Company all its assets and liabilities at a value of €860 million by the issuance of 403,226 new shares with a par value of €124 each. This resulted in a new share capital of €50,012,424 and a share premium of €809,999,976. Immediately thereafter the Company decided to decrease the subscribed share capital by €12,400 (100 shares) to €50,000,024.

The financial position and results for the period 1 January 2006 through 31 December 2006 were impacted by the following acquisitions and disposals:

- The acquisition of the Polymerisation Catalyst & Components business of Akzo Nobel (located in Edison, New Jersey, USA). The acquired Components business was subsequently disposed off through a separate transaction;
- The acquisition of interests in SunAllomer Ltd. (Japan), PolyMirae Co. Ltd. (South Korea) and HMC Polymers Co. Ltd. (Thailand) from Taiwan Polypropylene Co. Ltd. (Taiwan);
- The disposal of the Group's interest in Taiwan Polypropylene Co. Ltd. (Taiwan); and
- The acquisition of a naphtha cracker and related activities located in Münchsmünster (Germany).

The acquisitions and disposals are further described in note 9.

The financial position and results for the period from 20 April 2005 through 31 December 2005 were significantly impacted by the following transactions:

- The acquisition and financing of the Basell group as at 1 August 2005;
- The acquisition of the remaining 50 % interests in the former joint ventures Petroken Petroquimica Ensenada S.A. (Argentina) and Société du Craqueur de l'Aubette S.A.S. (France);
- The divestment of the Group's 50 % interest in the 160 kt polypropylene plant in Tarragona (Spain);
- The divestment of Transformadora De Propileno A.I.E., and its 100 % subsidiary Basell Brasil Poliolefinas Ltda. (Brazil), a company holding a 50 % interest in Polibrasil Participaçoes S.A. (Brazil). Immediately prior to the divestment of Basell Brasil Poliolefinas Ltda., the Group acquired the polypropylene compounding business of Polibrasil Participaçoes S.A. through the purchase of all shares in Norcom Compostos Termoplásticos do Nordeste S.A. (Brazil).

During 2006, the Group changed its accounting policies for licensing revenue recognition and the classification of the interest component of defined benefit costs related to pensions and other post-retirement benefits. The impact on the financial statements is further described in note 4.

2. Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) further to the IAS Regulation (EC 1606/2002) ('IFRSs as adopted by the EU').

These financial statements are based on IFRSs that are adopted by the EU and effective at 31 December 2006, which are further referred to as IFRS.

3. Summary of significant accounting policies

The accounting policies as described in this note are the Group's policies in respect of ongoing business transactions and other economic circumstances.

During 2006, the Group changed the accounting policies for licensing revenue recognition and related intellectual property rights and the presentation of the interest component of defined benefit plants, which are further described in note 4.

3-1 Basis of preparation

The financial statements are presented in Euro, the Group's functional and presentation currency, rounded to the nearest million. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, and financial instruments classified as available-for-sale.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the

circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are as followed:

- Judgement as to the existence of indications for an impairment of property, plant and equipment;
- Estimating the value in use to evaluate the recoverability of property, plant and equipment;
- Estimating taxable income during the foreseeable future for the determination of deferred tax assets;
- Actuarial assumptions used for measurement of the present value of post-retirement benefit obligations;
- As a result of the underlying inherent uncertainty the measurement of provisions.

All in all these judgements and estimates relate to the currently endorsed business plan of management for the years 2007 to 2011.

3-2 Consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable 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.

Transactions eliminated on consolidation

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3-3 Business combinations

The Group applies for its accounting for acquisitions the purchase method according to IFRS 3 Business Combinations, which contains the following key elements:

- The total of the purchase consideration plus any costs directly attributable to the acquisition determine the total costs of the acquisition. When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the Group includes an amount of the adjustment in the cost of the acquisition at the acquisition date if the adjustment is probable and can be measured reliably. Any subsequent changes to the contingent consideration will result in an adjustment to the initially recognised goodwill.
- At the acquisition date, being the date on which effective (joint) control is transferred to (significant influence is obtained by) the Group, all identifiable assets, liabilities and contingent liabilities are measured at their fair values.
- When the Group's share in the fair value of all identifiable assets, liabilities and contingent liabilities is less than the total cost of acquisition, the excess is recognised as goodwill, a separate component within intangible assets.
- When the Group's share in the fair value of all identifiable assets, liabilities and contingent liabilities exceeds the total cost of acquisition, a reassessment of the identifiable assets, liabilities, contingent liabilities and purchase consideration is required. If after the reassessment a surplus remains, it is recognised as negative goodwill in the income statement immediately following the acquisition.

3-4 Foreign currency translation

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities, with the exception of available-for-sale non-monetary financial assets, denominated in foreign currencies that are stated at fair value are translated to Euro at foreign exchange rates ruling at the dates the fair value was determined, with translation differences recognised as currency exchange gains or losses in the income statement. Translation gains or losses on available-for-sale non-monetary financial assets are recognised in Other reserves within Equity, net of tax.

Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Euro at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated to Euro at the foreign exchange rates prevailing at the date of any individual transactions as approximated by the monthly average rates whereby the translation result is recognised in Other reserves within Equity.

Net investment in foreign operations

Exchange differences arising from the translation of net investments in foreign operations, and of related hedges, are taken to the Other reserves within Equity. They are released to the income statement upon disposal of the foreign operation.

3-5 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic

environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The primary format for segment reporting is based on business segments and the secondary format is based on geographical segments due to the fact the Group's risks and rates of return are affected predominantly by differences in products.

The Group has identified three separately reportable business segments, 'Polyolefins', 'Advanced Polyolefins' and 'Technology' and reports under 'Other' the costs of major restructuring, certain corporate headquarter costs, costs associated with senior management compensation schemes and management fees paid to AI Petrochemicals LLC.

Transfer pricing between the segments is on an arm's length basis. The segment assets and liabilities consist of trade and licensing receivables, inventories, property, plant and equipment, intangible assets, investments in associates, other investments, available-for-sale financial assets, trade payables, deferred income and long-term liabilities that can be allocated to the segments. Other segment assets and liabilities consist of assets and liabilities which can not be reasonably allocated to the business segments. These include employee benefit obligations, provisions and deferred tax assets/liabilities.

3-6 Revenue

Goods sold and services rendered

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue related to the sales of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the customer. Revenue is determined by reference to the sales price of the goods delivered and services rendered during the period, net of related rebates, discounts, sales taxes and other duties. Costs are charged to the income statement in the same period in which the related revenue is recognised. Shipping and handling costs are included in cost of sales. Transactions whereby the Group sells products for third parties for whom the Group receives commissions and whereby the Group does not take credit or inventory risk are reported as part of revenue for the amount of commissions earned.

Licensing revenue

For licensing contracts whereby the Group receives the vast majority of the contract value in cash at or before the customer's license acceptance date, the Group recognises the full contract value as revenue when significant risks and rewards have been transferred to the licensee, and the Group has no continuing managerial involvement, which usually occurs on the date the process design packages are delivered to the licensee. For other contracts involving a significant running royalty element or a longer cash collection period, the Group recognises revenue over the average economic life of such contracts presently approximating 10 years.

3-7 Cost of sales

Cost of sales comprises of a) manufacturing costs of own-produced goods and b) cost of purchased trading goods to the extent sold and delivered. Cost of sales includes depreciation of property, plant and equipment and amortisation of intangible assets to the extent it directly relates to Basell's production or trading activities. Additionally royalties, logistic and packaging costs, cost for maintenance and repair and any inventory write-downs to lower net realisable value are included in cost of sales.

3-8 Leases

Leases whereby the Group does not assume substantially all the risks and benefits of ownership of the asset are treated as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the contractual lease term.

3-9 Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy 3-13). The cost of self-constructed assets includes the cost of materials, direct labour, technology acquired to construct the plant and an appropriate proportion of production overheads. The cost of self-constructed assets and acquired assets includes (1) the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and (2) changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate. The cost of major newly constructed tangible fixed assets includes interest incurred during the construction period.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components of property, plant and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. Costs of major inspections or overhauls occurring at regular intervals over the useful life of the asset are also considered to be a component and consequently capitalised and depreciated. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each component of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Buildings — up to 30 years
- Plant and equipment and major components — up to 20 years

Residual values of asset components are reassessed annually, unless insignificant.

3-10 Intangible assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the positive difference between the cost of the acquisition and the Group's share in the fair value of the identifiable assets and

(contingent) liabilities acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see accounting policy 3-13). In respect of associates and joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the associate or joint venture.

Any excess of fair value of identifiable assets, liabilities and contingent liabilities of acquired business over the cost of the acquisition (negative goodwill) is recognised directly as profit in the income statement.

Research and development

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

Expenditure on development activities whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, are capitalised when they meet the following criteria:

- Technical feasibility of completing the intangible asset so that it will be available-for-sale;
- Intention to complete the intangible asset and to use or sell it;
- Ability to use or sell the intangible asset;
- It is probable that the asset will generate future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- Ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Expenditure incurred subsequent to the completion is capitalised only when it is probable that it will give rise to future economic benefits in excess of the originally assessed standard of performance of the assets and it can be measured and attributed to the asset reliably.

Development costs are amortised over their estimated useful lives, which are determined for each project separately, however not exceeding 15 years. The estimated useful lives are reviewed at least once a year.

Intellectual property rights and customer relationships

Intellectual property rights and customer relationships in respect of licensing and catalyst sales activities were valued at the date of the acquisition of the Basell group at their estimated fair value based on the net present value of the future benefits from licenses and catalyst sales. Patents, licenses, trademarks and similar rights purchased from third parties are valued at cost. The amortisation of the intellectual property rights regarding signed licensing contracts as per the date of the acquisition of the Basell group match the related revenue recognition (accounting policy 3-6). Other intellectual property rights and customer relationships are amortised on a straight-line basis over periods of up to 15 years, the period management expects the benefits from these relationships to arise.

Software

Certain costs related to the development or purchase of internal-use software are capitalised as software and subsequently amortised over the estimated useful life of the software not exceeding 5 years. Costs related to the preliminary project stage and the post-implementation and operation stages in an internal-use computer software development project are expensed as incurred.

Emission rights

Emission rights are recognised as intangible assets at their initial fair value. If allowances are granted by governments for less than fair value, the difference between the fair value and the amount paid, is accounted for as deferred income and amortised to the income statement over the period for which the allowances were granted. After initial recognition, both the intangible assets and related deferred income are not revalued for any changes in market prices. As emissions occur, a provision is recognised on the balance sheet for the obligation to deliver allowances to cover those emissions whereby the cost of the incurred emissions are based on the initial fair value of allowances granted.

3-11 Investments

General

All regular purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase or sell the asset. Regular purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace.

Derecognition of a financial asset takes place when the contractual rights to the cash flows are expired or sold, when substantially all of the asset's risks and rewards are transferred, or when control of the asset is transferred.

Associates and joint ventures

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised income and expenses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expenses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases. When the Group's share of expenses exceeds its interest in an associate or joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations, or made payments on behalf of an associate or joint venture, or related loans to the associate or joint venture have become impaired.

Available-for-sale financial assets

After initial recognition, investments classified as available-for-sale are stated

at fair value, with any resultant gain or loss being recognised directly in equity, net of tax, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments not actively traded, Basell is determining the fair value using a Discounted Cash Flow model.

3-12 Borrowing costs

Interest costs are capitalised if and to the extent that they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, as part of the cost of that asset.

3-13 Impairment of assets

The carrying amounts of the Group's assets other than inventories (see accounting policy 3-15) and deferred tax assets (see accounting policy 3-19), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, intangible assets with an indefinite useful life and intangible assets that are not yet available for use and capitalised development costs, the recoverable amount is estimated at least once a year.

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

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. Fair values are based on market values or, in case reliable market values are not available, cash flow methodologies. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. A cash-generating unit includes a plant and related infrastructure, equipment and goodwill if specifically allocated.

Reversal of impairment

An impairment loss in respect of receivables carried at amortised cost and available-for-sale monetary assets is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

An impairment loss in respect of goodwill is not reversed.

3-14 Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recorded as deferred income and is released to the income statement over the expected useful life of the associated asset by equal annual instalments.

3-15 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an allocated share of overheads based on a normal operating capacity.

3-16 Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for bad debts. Such allowance is made when collection of the full amount is no longer probable, based on discounted expected future cash flows.

3-17 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits.

3-18 Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of upfront paid arrangement fees and other financing related costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. Under the amortised cost method, the upfront paid arrangement fees and other financing related costs are recognised as finance expense over the term of the underlying loans or borrowings using the effective interest method.

3-19 Income tax

Income tax on profit or loss for the period comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following permanent differences are not provided for:

- Initial recognition of goodwill;
- Initial recognition of assets or liabilities that affect neither accounting nor taxable profit;
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

3-20 Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Recoveries from third parties, which are probable of realisation, are separately recorded, and are not offset against the related liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of contaminated land is recognised when the land is contaminated. Liabilities for environmental remediation resulting from past operations or events are recognised where an obligation to a third party is probable and the amount can be reasonably estimated. Measurement of liabilities is based on current legal requirements and existing technology. Liabilities are determined independently of expected recoveries. Such recoveries are recorded when realisation is virtually certain.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract and when such provision can be reasonably estimated.

3-21 Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement 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 recognised immediately in the income statement.

Actuarial gains and losses that arise in calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10 % of the greater of the present value of the defined benefit obligation and the fair value of plan assets, are recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Interest expense and expected return on plan assets included in net periodic pension cost are presented within finance expense. All other components of net periodic pension cost are presented in the respective functional cost.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised actuarial losses and past

service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

In case of being a participant in a multi-employer defined benefit pension plan, the Group accounts for such a plan as a defined benefit plan, or, if sufficient information is not available, as a defined contribution plan.

Long-term service benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted. The discount rate is the yield at the balance sheet date on AAA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations.

The individual components of net periodic cost related to these plans are presented in the same lines as net periodic pension cost related to defined benefit plans.

3-22 Share-based payments and other compensation plans

Stock options and stock appreciation rights granted to employees on the stock of Royal Dutch Shell plc and BASF AG are measured at fair value at the end of each reporting period. The fair value of the options and rights at grant date is recognised as employee expense over the vesting period. Any change in the fair value of the stock options and stock appreciation rights is recognised as finance income or expense. The fair value of stock options and stock appreciation rights is calculated using the market price of the underlying shares and an option valuation model.

The fair value of equity instruments, including bonus shares granted to employees as part of their remuneration package are recognised as employee expenses over the period in which the services are provided.

3-23 Share capital and share premium

Share capital represents the value of issued shares at their nominal value. Any surplus value upon the issuance of shares is accounted for as Share premium. Incremental costs directly attributable to issue shares are recognised as a deduction from Other reserves.

3-24 Financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

3-25 Derivative financial instruments and hedging activities

General

The Group uses derivative financial instruments principally in the management of its foreign currency, interest rate and commodity price risks (see note 34). The Group measures all derivative financial instruments based on fair values derived from market prices or a valuation model.

Fair value hedges

Where derivative financial instruments have been designated as a fair value hedge, gains or losses arising from changes in the fair value of the instruments are recognised in the income statement during the period in which they arise. To the extent that the derivative financial instruments have no hedging designation or are ineffective they are recognised in the income statement in the period in which they arise. The gains and losses on the designated derivatives substantially offset the gains and losses in the risks being hedged in the values of the recognised hedged items, which are recognised as gains and losses in the income statement.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains until the forecasted transaction occurs.

Net Investment hedges

Changes in the fair value of derivative financial instruments that are effective and designated as a net investment hedge, are recorded in Other reserves within Equity.

Effectiveness and discontinuation of hedge accounting

If derivative financial instruments qualify and are designated as hedges, the Group formally assesses both at the hedge's inception and on an ongoing basis, whether these derivative financial instruments are effective in offsetting changes in fair values, cash flows or investment values of the items being hedged. When it is determined that a derivative is not effective as a hedge or that it has ceased to be effective, the Group discontinues hedge accounting prospectively.

When fair value hedge accounting is discontinued because it is determined that the derivative financial instrument no longer qualifies as an effective hedge, the Group continues to carry the derivative on the balance sheet at its fair value, and no longer adjusts the hedged asset or liability for changes in fair value. The fair value adjustment made to the hedged asset or liability is amortised over the remaining useful life, based on the recalculated effective interest rate.

When cash flow hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Group continues to carry the derivative financial instrument on the balance sheet at its fair value, and gains and losses that were accumulated in Other reserves within Equity are recognised immediately to income.

When net investment hedge accounting is discontinued, due to divestment of an investment on which gains or losses were accumulated in Other reserves within Equity, the portion related to

the investment is taken to the income statement.

3-26 New standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements:

- IFRS 7 *Financial Instruments: Disclosures* and the *Amendment to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Group's 2007 financial statements, will require extensive additional disclosures with respect to the Group's financial instruments and share capital.
- IFRS 8 *Operating Segments* sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which they operate, and its major customers. IFRS 8, which becomes mandatory for the Group's 2009 financial statements, will require additional disclosures on these items.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Group's 2007 financial statements, is not expected to have an impact on the consolidated financial statements.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Group's 2007 financial statements, with retrospective application required. IFRIC 8 is not expected to have an impact on the consolidated financial statements.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires a reassessment of whether embedded derivative should be separated from the underlying host contract; it concludes that this should be made only when there are changes to the contract. IFRIC 9, which becomes mandatory for the Group's 2007 financial statements, is not expected to have an impact on the consolidated financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will become mandatory for the Group's 2007 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date of incorporation of the Company (20 April 2005). IFRIC 10 is not expected to have an impact on the consolidated financial statements.
- IFRIC 11 IFRS 2 – *Group and Treasury Share Transactions* provides guidance in applying IFRS 2 *Share-based Payment* in three circumstances:
  - Share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation – is this an equity-settled or cash-settled transaction?
  - A parent grants rights to its equity instruments to employees of its subsidiary – how to account in the individual entities' financial statements?
  - A subsidiary grants rights to equity instruments of its parent to its employees – how to account in the individual entities' financial statements?

IFRIC 11 will become mandatory for the Group's 2008 financial statements and is not expected to have an impact on the consolidated financial statements.

3-27 Interest rates

Basell applied the following interest rates during 2005 and 2006:

%	2006	2005
Discount rate for impairment testing property, plant & equipment using WACC (Weighted average cost of capital)	6.50 – 8.50	6.90
Non-current accounts receivable	5.50 – 7.00	5.25 – 7.00
Non-current payables and provisions	4.00	3.90
Decommissioning obligation	3.80 – 5.00	3.55 – 4.75
Capitalised borrowing costs	6.00	6.00

4. Change in accounting policies and presentation

License revenue recognition

During 2006 the Group changed its accounting policy for licensing revenue recognition following changes in the licensing market and consequently the pattern of marketing Basell's process technology licenses. The previous policy generally required that all fixed fees (usually described as lump-sums or down payments) defined by license contracts were recognised on a straight-line basis as revenue over an eight-year period following the effective delivery of the license package, which period represented the average economic life of the license contracts. In the view of Basell management's the old policy no longer represents the economic nature of Basell's license contracts in the current market environment and therefore adopted a new policy. Under the new policy the Group performs a contract-by-contract analysis and determines if and when it has substantially 'sold its product'.

Licensing contracts for which the Company contractually is entitled to receive the vast majority of the contract value in cash at or before the customer's license acceptance date, the Group will recognise the full contract value as revenue if all significant risks and rewards under the contract have been transferred to the licensee and the Group has no continuing managerial involvement. This relevant date is usually the delivery day of the process design packages. For other contracts involving a significant running royalty element or a longer contractual cash collection period, the Group will continue to recognise revenue pro-rata over the average economic life of such contracts, presently estimated at 10 years.

Following the change in the licensing revenue recognition, the amortisation of Intellectual property rights recorded under intangible assets (fair valued upon acquisition of the Basell group) had to be adjusted accordingly. The amortisation effect is included in 'Cost of Sales'.

The change in accounting policy has been applied retrospectively in accordance with IAS 8. The assets acquired through the acquisition of the Basell group as at 1 August 2005 have been adjusted to represent the new policy. Additionally, the comparative information presented in the income statement for the period 20 April through 31 December 2005 has been adjusted.

The effect on the income statement 2005 and 2006 is as follows:

€ MILLION	2006	2005 (20 APR – 31 DEC)
Increase in revenue	58	37
Increase in cost of sales	(20)	(24)
Increase in operating profit	**38**	**13**
Decrease / (Increase) in finance expense	3	(1)
(Increase) in income tax expense	(16)	(5)
Increase in excess of fair value of identifiable assets, liabilities and contingent liabilities of acquired business over the cost of the acquisition	–	7
Increase in profit for the period	**25**	**14**

The effects on the balance sheet and equity as at 31 December are as follows:

€ MILLION	2006	2005
Decrease in intangible assets	(62)	(42)
Increase in working capital	125	64
Increase in deferred tax liability	(24)	(8)
Total change in net assets (equity)	**39**	**14**
Cumulative increase in equity recognised in previous periods	14	–
Increase in profit for the period	25	14
Total change in equity	**39**	**14**

Presentation of interest component and expected return on plan assets of defined benefit costs

During 2006 Basell changed its presentation of the interest component and expected return on plan assets of defined benefit costs ('the interest component') related to pensions and other post-retirement benefits. The interest component previously included under cost of sales and operating expenses is now presented as finance expense.

The new classification follows market practise and reflects more appropriately the nature of the components of the defined benefit costs resulting from the unwinding of the discount on the net present value of the defined benefit obligations and the expected return on plan assets.

The amounts for each period as well as the income statement lines affected are as follows:

€ MILLION	2006	2005 (20 APR – 31 DEC)
Decrease in cost of sales	10	4
Decrease in selling expenses	2	1
Decrease in general and administrative expenses	3	1
Decrease in research and development expenses	2	1
Increase in operating profit	**17**	**7**
(Increase) in finance expense	**(17)**	**(7)**
Pensions	10	4
Other post-retirement benefits	7	3
Total	**17**	**7**

5. Fair valuation of acquired assets, liabilities and contingent liabilities

Acquisitions described in notes 6 (regarding 2005) and 9 (regarding 2006) are considered business combinations and therefore purchase price allocations ('PPA') according to IFRS 3 Business Combinations have been made. As a result the fair value of all identifiable assets and (contingent) liabilities had to be determined. The term 'fair value' is defined as the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties, in an arm's length transaction.

The selection of the valuation method for each asset depends on the facts and circumstances relating to the specific assets. In determining fair values there are different conceptual approaches that can be applied according to the following priority: firstly the market approach, secondly the income approach or the cost approach. By applying the income approach, the information in determining the fair values is being derived from the most recent, applicable and approved management's five year business plan.

The fair value of **property, plant & equipment** was determined based on the following valuation hierarchy:

- Market approach, wherever a market value was available.
- Cost approach, representing the depreciated replacement costs determined by an external appraiser. However, where indications existed that the depreciated replacement costs exceeded the discounted future cash flows, the lower discounted future cash flow value has been determined and selected.

The valuation of **intellectual property rights** was determined as follows:

- The fair value of the licensed technology was assessed by using the income approach, which calculates discounted cash flow values over the remaining economic lives based on existing contracts as well as expected future sales of licenses.
- The fair value of the catalyst business was assessed by using the income approach based on existing catalyst sales contracts and customer relationships.

The valuation of **investments in associates** and **joint ventures** followed the following criteria:

- Market approach, wherever a market value was available.
- The income approach.
- The cost approach (current cost to purchase or to replace the asset) has been applied in cases where neither market approach nor application of the income approach was appropriate.

Inventories of finished goods were valued at expected selling prices less the costs of disposal and a reasonable profit margin for the selling effort. Inventories of raw materials are valued at current replacement costs.

Defined benefit plans are valued using the present value of the obligation less the fair value of any plan assets. The key assumptions used for the fair valuation are disclosed in note 21.

Contingent liabilities are recognised at fair value based on the exposure at time of the acquisition taking into account the probability of future cash outflows.

Government grants received prior to acquisition as well as deferred income related to cash flows prior to acquisition do not carry any fair value.

In situations where a Group company is engaged in third party purchase contracts for raw materials which have unfavourable pricing compared to industry standards, a provision for unfavourable contracts has been recognised based on discounted future cash flows representing the difference between the contracted purchase price and a purchase price following the industry standard.

Interest-bearing loans and borrowings with a fixed interest rate have been valued based on interest rates applicable to similar loans and borrowings at the date of acquisition.

Fair values determined upon acquisitions are treated as deemed costs thereafter, with the exception of derivative financial instruments, financial instruments held for trading, and financial instruments classified as available-for-sale.

Assets or liabilities not described above are primarily recognised in accordance with the Group's regular accounting policies set out in note 3 of this document.

Certain of the above mentioned fair values of assets and (contingent) liabilities are provisional estimates based on best information available at the time of determining those values. IFRS 3 allows adjustments to this provisional accounting within a timeframe of 12 months after acquisition if it can be demonstrated that new information does provide better evidence about the fair value of any asset or (contingent) liability at the date of acquisition.

6. Changes in provisional accounting for business combinations 2005

During 2005 the company directly or indirectly acquired shares in the following companies:

TRANSACTION	ACQUISITION DATE	SHARES ACQUIRED	DIRECT INTEREST POST-ACQUISITION
Former Basell group	1 August	100.00 %	100.00 %
Petroken Petroquimica Ensenada S.A.	1 September	50.00 %	100.00 %
Basell Brasil Participaçoes Ltda.	1 September	50.00 %	100.00 %
Société du Craqueur de l'Aubette S.A.S.	29 December	50.00 %	100.00 %

These acquisitions qualify as Business Combinations in accordance with IFRS 3. The fair values of the assets, liabilities and contingent liabilities acquired, as included in the Consolidated Financial Statements for the period 20 April 2005 to 31 December 2005, were determined based on all information available at the acquisition date ('provisional accounting').

This provisional accounting was adjusted for new information obtained within a timeframe of 12 months after the acquisition date. These adjustments to the fair value determined in the provisional purchase price allocations are not treated as movements for the year 2006, but as a change to the comparative numbers as at 31 December 2005.

The following table shows a (condensed) reconciliation of significant line items in the Consolidated Financial Statements for the period 20 April 2005 to 31 December 2005 and the comparative numbers used in these Consolidated Financial Statements.

€ MILLION	CONSOLIDATED FINANCIAL STATEMENTS 31-DEC 2005 (ISSUED)	FAIR VALUE ADJUSTMENTS	ADJUSTMENTS DUE TO CHANGE IN ACCOUNTING POLICY IN 2006	COMPARATIVE FINANCIAL STATEMENTS 31-DEC 2005 (ADJUSTED)
ASSETS				
Property, plant and equipment	2,554	10	–	2,564
Intangible assets including goodwill	589	(6)	(42)	541
Investments in associates and joint ventures	585	–	–	585
Other non-current assets	160	12	(1)	171
Total non-current assets	**3,888**	**16**	**(43)**	**3,861**
Inventories	1,001	1	–	1,002
Trade receivables	1,402	2	74	1,478
Other current assets	298	1	–	299
Cash and cash equivalents	590	–	–	590
Total current assets	**3,291**	**4**	**74**	**3,369**
Total assets	**7,179**	**20**	**31**	**7,230**
Equity	**944**	**40**	**14**	**998**
LIABILITIES				
Interest-bearing loans and borrowings	2,745	–	–	2,745
Employee benefits	509	–	–	509
Deferred income	27	–	9	36
Deferred tax liabilities	296	9	8	313
Provisions	333	(28)	–	305
Other non-current liabilities	27	–	–	27
Total non-current liabilities	**3,937**	**(19)**	**17**	**3,935**
Total current liabilities	**2,298**	**(1)**	**–**	**2,297**
Total liabilities	**6,235**	**(20)**	**17**	**6,232**
Total equity and liabilities	**7,179**	**20**	**31**	**7,230**

The main fair value adjustments are explained below:

The acquisition accounting for Basell Brasil Participaçoes Ltda. and Petroken Petroquimica Ensenada SA was finalised during the third quarter resulting in an increase of property, plant and equipment of €12 million and a corresponding increase of negative goodwill.

Part of the purchase price consideration for Société du Craqueur de l'Aubette S.A.S. ('SCA') is contingent on the operating performance in the period 2006 – 2008 ('earn-out'). The payment of the earn-out is not due until the beginning of 2009. The initial 2005 estimate of the contingent purchase price of €95 million was adjusted in December 2006 based on current business plan assumptions. Accordingly the cost of the acquisition and hence goodwill in the 2005 comparative figures were reduced by €30 million.

New information allowed the Company to increase the value of the Intellectual Property Rights (included in intangible assets including goodwill) acquired as of 1 August 2005 by €23 million

Further insight into new US legislation regarding other post retirement benefits (see note 21) allowed Basell to recognise a non-current other employee benefit asset of €7 million. Furthermore a favourable settlement of a claim affecting one of Basell's associates was reached during 2006, allowing for an increase of €5 million of the fair value of the group's loan (included in 'other non-current assets') to the associate.

7. Specials

Apart from the results of Basell's regular business operations, the profit for the year 2006 was impacted by a number of special items.

€ MILLION	2006 BEFORE ADJUSTMENTS FOR SPECIALS	2006 SPECIAL ITEMS	2006 AFTER ADJUSTMENTS FOR SPECIALS
Revenue	10,495	–	10,495
Cost of sales (a)	(9,388)	16	(9,372)
Gross profit	**1,107**	**16**	**1,123**
Other income (b)	66	(61)	5
Selling expenses (a)	(155)	1	(154)
General and administrative expenses (a)	(240)	12	(228)
Research and development expenses	(103)	–	(103)
Other expenses (c)	(56)	56	–
Operating profit before finance costs	**619**	**24**	**643**
Finance income	35	–	35
Finance expense	(273)	–	(273)
Net finance costs	**(238)**	**–**	**(238)**
Net results from associates and joint ventures accounted for under the equity method (d)	102	(17)	85
Profit before tax	**483**	**7**	**490**

a) Redundancy costs

During the year 2006 the Group incurred further costs related to redundancy programmes in Europe and North America (see note 24).

b) Other income

Basell recognised a €10 million a gain on the sale of Components business and Custom Catalysts assets (see note 30) as well as a €12 million gain from restructuring certain Asian entities (see notes 9 and 30). In addition €37 million of receivables related to a property damage insurance claim were recognised (see note 30).

c) Other expense

Other expenses include impairment losses of €56 million (see notes 11, 12, 24 and 31).

d) Dilution gain

The issue of new shares by HMC resulted in a dilution gain of €17 million (see notes 9 and 30).

The income tax consequences of these special items amount to tax expenses of €7 million. In addition a temporary difference on $-bonds was eliminated in the Netherlands resulting in a tax benefit of €23 million (see note 33), which was largely off-set by the income tax expense resulting from the write off of the net deferred tax asset in France (€19 million).

8. Events after the balance sheet date

North American post retirement benefit plans

In February 2007 Basell management in North America communicated to employees affected its decision to align existing post-retirement benefit plans in the United States and Canada with prevailing terms & conditions commonly adopted in the relevant market place. The announced changes will affect all present plans (see note 21) and reduce the risk exposure of Basell's legal entities in North America in connection with its defined benefit plans. At the same time certain conditions under existing or newly opened defined contribution plans are expanded.

The most significant changes are:

- No additional benefits under existing defined benefit retirement plans can be earned after 31 December 2007.
- Existing defined contribution retirement plans will be transferred to new extended defined contribution schemes as at 1 January 2008 and employees will be automatically enrolled in these plans. Under such new plans Basell's contribution will be expanded.
- Benefits provided under existing defined benefit post-retirement health care plans will be capped and higher deductibles applied starting 1 January 2008 (Canada: 1 July 2007) effecting both active employees and retirees.

These changes in the employee benefit schemes will have a significant impact on the Group's consolidated financial statements in 2007 and future years.

Relocation of North American regional headquarter

During January 2007 Basell management in North America communicated to its employees management's decision to relocate its North American regional headquarters in Elkton, Maryland/USA, within the region. In connection with this relocation Basell will also reorganise its service functions currently located in Elkton. The overall financial impact of these measures is expected not to significantly impact the Group's financial statements.

9. Acquisitions/disposals 2006

The fair values of the acquired assets and (contingent) liabilities below are considered final unless indicated.

Acquisition of Polymerisation Catalyst & Components business, USA

On 31 March 2006, the Group acquired Akzo Nobel's Polymerisation Catalyst & Components business. The business includes catalyst manufacturing and other assets in Edison, New Jersey, USA. The fair values of the acquired assets and (contingent) liabilities are as follows:

€ MILLION	FAIR VALUE
Property, plant and equipment (provisional)	25
Total non-current assets	**25**
Inventories	9
Trade and other receivables	2
Total current assets	**11**
Total assets	**36**
Trade and other payables	1
Employee benefits	2
Total current liabilities	**3**
Total liabilities	**3**
Net assets acquired	33
Purchase price	(33)
Goodwill	–

Disposal of Components business and Custom Catalyst assets, USA

On 2 June 2006, Basell completed the sale of the Components business and Custom Catalyst assets located at Edison, New Jersey USA to W.R. Grace for a total amount of $20 million, including $4 million of working capital. The resulting gain amounted to €10 million (see note 30).

Restructuring of certain Asian entities

Basell announced on 24 July 2006 that it had agreed to sell its subsidiary Basell Taiwan Holdings B.V. to Lee Chang Yung Chemical Industry Corporation of Taiwan, a leading global thermoplastic elastomer manufacturer. The sole activity of this subsidiary was holding a 36 % interest in Taiwan Polypropylene Co. Ltd. ('TPP'). The sale was completed early September 2006 and resulted in a gain on disposal of €4 million which is included in the income statement as 'Other income'.

In conjunction with this disposal the Group acquired additional interests held by TPP in three joint ventures. The effect on the Group's share in these entities is summarised in the following table:

€ MILLION	DIRECT INTEREST PRE-ACQUISITION/	(IN-) DIRECT INTEREST PRE-ACQUISITION	(IN-) DIRECT INTEREST POST-ACQUISITION
SunAllomer Ltd., Japan	33.33 %	39.33 %	50.00 %
PolyMirae Co. Ltd., South Korea	25.18 %	34.61 %	42.59 %
HMC Polymers Company Ltd., Thailand	41.46 %	43.33 %	46.64 %

The combined purchase price paid for these acquisitions exceeded the fair value of the net-assets acquired.

€ MILLION	
Total cash consideration	44
Of which related to shareholding previously indirectly owned via TPP	(16)
Cash consideration regarding increase in shareholding (now directly owned)	28
Fair value of share in net assets acquired	24
Goodwill	4

After the acquisition of the additional interest in HMC, PTT Public Company Limited ('PTT'), a listed natural resource company of Thailand, acquired a 40.00 % share in HMC through the purchase of newly issued and existing shares. As a consequence, the Group's (indirect) share in HMC was reduced from 46.64 % to 30.77 %. The financial impact of the share dilution in HMC amounted to a €17 million gain. Subsequently, Basell divested a further 2.21 % interest (to 28.56 %) in HMC to PTT which resulted in a gain on disposal of €8 million, which is included in Other income.

Acquisition of naphtha cracker business in Münchsmünster, Germany

On 29 December 2006, the Company's German subsidiary Basell Polyolefine GmbH acquired the Münchsmünster cracker business from Ruhr Öl GmbH, Deutsche BP AG and BP Gelsenkirchen GmbH ('sellers'). The business includes a twin-train cracker, land, pipelines and shares in associated companies. As the transaction was completed just before year-end it did not contribute any revenues or net income in 2006.

The total purchase price consideration was €64 million. This includes €36 million of contingent consideration Basell currently expects to pay. Payment will depend on the sellers ensuring the supply of certain feedstock volumes and quality from their refineries for a period of up to ten years after the acquisition date. €45 million of the total purchase price was paid at the acquisition date (including an up-front payment of part of the contingent consideration of €17 million).

The fair values of the acquired assets and liabilities compared to the cost of the acquisition are as followed:

€ MILLION	FAIR VALUE
Property, plant and equipment (provisional)	62
Intangible assets	1
Available-for-sale financial assets	7
Total non-current assets	70
Inventories	7
Total assets	**77**
Employee benefits	7
Deferred tax liabilities	1
Provisions	1
Total non-current liabilities	9
Trade and other payables	3
Total liabilities	**12**
Net assets acquired	**65**
Total purchase price consideration	64
Excess of fair value of identifiable assets, liabilities and contingent liabilities of acquired business over the cost of the acquisition	**1**

10. Segment reporting

Primary segment information 2006

€ MILLION	POLYOLEFINS	ADVANCED POLYOLEFINS	TECHNOLOGY	OTHER	ELIMINATIONS /UNALLOCATED	CONSOLIDATED
External revenue	8,704	1,517	274	–	–	10,495
Inter-segment revenue	391	19	95	–	(505)	–
Total revenue	**9,095**	**1,536**	**369**	**–**	**(505)**	**10,495**
Depreciation and amortisation	(210)	(43)	(102)	–	–	(355)
Impairment of non-current assets	(56)	–	–	–	–	(56)
Operating result	**401**	**110**	**104**	**4**	**–**	**619**
Net results from associates and joint ventures accounted for under the equity method	97	5	–	–	–	102
Net financing costs	–	–	–	–	(238)	(238)
Income tax expenses	–	–	–	–	(207)	(207)
Excess of fair value of identifiable assets, (contingent) liabilities of acquired business over the cost of the acquisition	–	–	–	–	1	1
Profit for the period	**498**	**115**	**104**	**4**	**(444)**	**277**
Capital expenditure of property, plant & equipment	**166**	**18**	**19**	**6**	**–**	**209**
SEGMENTS ASSETS OF WHICH						
Property, plant and equipment	1,881	457	187	2	(1)	2,526
Intangible assets	2	–	400	15	–	417
Investments in associates and joint ventures	739	61	2	–	–	802
Other investments	6	7	–	–	–	13
Available-for-sale financial assets	43	–	–	2	–	45
Receivables and inventories	1,916	485	167	–	(1)	2,567
Unallocated assets	–	–	–	–	1,057	1,057
Total assets	**4,587**	**1,010**	**756**	**19**	**1,055**	**7,427**
SEGMENT LIABILITIES OF WHICH						
Trade payables	1,005	98	20	–	–	1,123
Deferred income	–	–	90	–	–	90
Non-current provisions	238	–	–	–	51	289
Unallocated liabilities	–	–	–	–	4,655	4,655
Total liabilities	**1,243**	**98**	**110**	**–**	**4,706**	**6,157**

Primary segment information 2005 (20 April – 31 December)

€ MILLION	POLYOLEFINS	ADVANCED POLYOLEFINS	TECHNOLOGY	OTHER	ELIMINATIONS /UNALLOCATED	CONSOLIDATED
External revenue	3,097	550	122	–	–	3,769
Inter-segment revenue	132	5	41	–	(178)	–
Total revenue	**3,229**	**555**	**163**	**–**	**(178)**	**3,769**
Depreciation and amortisation	(68)	(19)	(54)	–	–	(141)
Impairment of non-current assets	(40)	–	–	–	–	(40)
Operating result	**109**	**(6)**	**10**	**(33)**	**–**	**80**
Net results from associates and joint ventures accounted for under the equity method	23	2	–	–	–	25
Net financing costs	–	–	–	–	(112)	(112)
Income tax benefit	–	–	–	–	2	2
Excess of fair value of identifiable assets, (contingent) liabilities of acquired business over the cost of the acquisition	–	–	–	–	139	139
Profit for the period	**132**	**(4)**	**10**	**(33)**	**29**	**134**
Capital expenditure of property, plant & equipment	**76**	**19**	**13**	**1**	**–**	**109**
SEGMENTS ASSETS OF WHICH						
Property, plant and equipment	1,865	505	188	6	–	2,564
Intangible assets	38	–	480	23	–	541
Investments in associates and joint ventures	524	60	1	–	–	585
Other investments	10	–	–	–	–	10
Available-for-sale financial assets	36	–	–	5	–	41
Receivables and inventories	1,833	448	204	–	(5)	2,480
Unallocated assets	–	–	–	–	1,009	1,009
Total assets	**4,306**	**1,013**	**873**	**34**	**1,004**	**7,230**
SEGMENT LIABILITIES OF WHICH						
Trade payables	940	105	17	–	3	1,065
Deferred income	–	–	36	–	–	36
Non-current provisions	206	–	–	–	–	206
Unallocated liabilities	–	–	–	–	4,925	4,925
Total liabilities	**1,146**	**105**	**53**	**–**	**4,928**	**6,232**

In both years presented, the unallocated assets relate to Deferred charges, Other financial assets, Deferred tax assets, Receivables from tax authorities, Other receivables, Prepayments and Cash and cash equivalents.

The unallocated liabilities relate to Interest-bearing loans and borrowings, Employee benefits, Deferred tax liabilities, certain Provisions, Other non-current liabilities, Other payables, Payables to tax authorities and Accrued liabilities.

Secondary segment information 2006

€ MILLION	EUROPE	NORTH AMERICA	INTERNATIONAL	ELIMINATIONS /UNALLOCATED	CONSOLIDATED
Revenue	8,210	1,716	945	(376)	10,495
Segment assets	4,072	888	951	1,516	7,427
Capital expenditure	156	14	39	–	209

Secondary segment information 2005

€ MILLION	EUROPE	NORTH AMERICA	INTERNATIONAL	ELIMINATIONS /UNALLOCATED	CONSOLIDATED
Revenue	2,702	655	412	–	3,769
Segment assets	4,525	975	737	993	7,230
Capital expenditure	74	6	29	–	109

11. Property, plant and equipment

MOVEMENTS IN 2006 (€ MILLION)	LAND AND BUILDINGS	PLANT AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
BALANCE AT 1 JANUARY 2006	**302**	**2,085**	**177**	**2,564**
Acquisition through business combinations	18	68	1	87
Additions	3	4	197	204
Transfers	24	238	(262)	–
Depreciation charge for the year	(13)	(247)	–	(260)
Impairments	–	(22)	–	(22)
Disposals and other movements	(4)	9	(5)	–
Currency exchange adjustments	(5)	(39)	(3)	(47)
At 31 December 2006, net of accumulated depreciation and impairment	**325**	**2,096**	**105**	**2,526**
AT 31 DECEMBER 2006				
Gross carrying amount	345	2,444	105	2,894
Accumulated depreciation and impairment	(20)	(348)	–	(368)
Net carrying amount	**325**	**2,096**	**105**	**2,526**

Property, plant and equipment acquisitions through business combinations relate to the acquisition of Akzo Nobel's Polymerisation Catalyst & Components business in Edison, New Jersey, USA in March 2006 and the acquisition of the cracker business in Münchsmünster, Germany, on 29 December 2006.

Impairment charges relate to SCA's cracker (note 24) and the polypropylene plant in Sarnia, Canada. At current exchange rates between the US $ and Canadian $ and existing feedstock supply contracts the Sarnia plant was not competitive in 2006. With little changes expected until the end of the plant's useful life in December 2007 the carrying amount of €6 million was determined not to be recoverable.

Disposals and other movements of land and buildings relate to land owned in Camperdown, Scotland which was sold in August 2006 (€3 million) and an office building in Lansing, USA which was sold in December 2006 (€4 million).

MOVEMENTS IN 2005 (€ MILLION)	LAND AND BUILDINGS	PLANT AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
Balance at 20 April 2005	**–**	**–**	**–**	**–**
Acquisition of former Basell group	304	1,816	166	2,286
Acquisition of subsidiaries (see note 6)	1	264	10	275
Additions	–	1	107	108
Transfers	3	103	(106)	–
Depreciation charge for the year	(6)	(84)	–	(90)
Impairments	(1)	(18)	–	(19)
Currency exchange adjustments	1	3	–	4
At 31 December 2005, net of accumulated depreciation and impairment	**302**	**2,085**	**177**	**2,564**
AT 31 DECEMBER 2005				
Gross carrying amount	309	2,188	177	2,674
Accumulated depreciation and impairment	(7)	(103)	–	(110)
Net carrying amount	**302**	**2,085**	**177**	**2,564**

In September 2005, Basell management decided to discontinue the cracker expansion project in Wesseling, Germany. The capitalised project costs of €12 million have been written-off.

As a consequence of an explosion on 10 December 2005 in the Group's polyethylene plant in Münchsmünster, Germany, plant assets of €7 million were impaired.

12. Intangible assets

MOVEMENTS IN 2006 (€ MILLION)	INTELLECTUAL PROPERTY RIGHTS	DEVELOPMENT COSTS	SOFTWARE	GOODWILL	OTHER	TOTAL
BALANCE AT 1 JANUARY 2006	**471**	**9**	**23**	**34**	**4**	**541**
Additions	–	2	5	–	–	7
Amortisation	(81)	(1)	(13)	–	–	(95)
Impairment	–	–	–	(34)	–	(34)
Disposals and other movements	–	–	–	–	(2)	(2)
At 31 December 2006, net of accumulated amortisation and impairment	**390**	**10**	**15**	**–**	**2**	**417**
AT 31 DECEMBER 2006						
Gross carrying amount	521	11	23	34	2	591
Accumulated amortisation and impairment	(131)	(1)	(8)	(34)	–	(174)
Net carrying amount	**390**	**10**	**15**	**–**	**2**	**417**

The intellectual property rights mainly reflect proprietary technologies (*Spheripol*, *Spherizone*, *Hostalen*, *Spherilene*, *Lupotech* T and *Lupotech* G) licensed by the Group and developed catalyst product families sold to the market. These values have been determined upon acquisition of the Basell group as described in note 4.

The capital expenditures for development costs, which are included in intellectual property rights, are related to the 'Continuous Titanation' and Polybutene projects.

The capital expenditures for software primarily reflect the development and further roll-out of the Group's common SAP ERP platform.

The impairment of goodwill relates to the goodwill acquired as part of the 2005 acquisition of SCA (see note 24).

Amortisation of intangible assets is included in Cost of sales, with the exception of amortisation of Development costs, which is included in Research and development expenses.

MOVEMENTS IN 2005 (€ MILLION)	INTELLECTUAL PROPERTY RIGHTS	DEVELOPMENT COSTS	SOFTWARE	GOODWILL	OTHER	TOTAL
BALANCE AT 20 APRIL 2005	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of former Basell group	517	9	27	–	25	578
Acquisition of subsidiaries	–	–	–	55	–	55
Additions	–	–	1	–	–	1
Amortisation	(46)	–	(5)	–	–	(51)
Impairment	–	–	–	(21)	–	(21)
Disposals and other movements	–	–	–	–	(21)	(21)
At 31 December 2005, net of accumulated amortisation and impairment	**471**	**9**	**23**	**34**	**4**	**541**
AT 31 DECEMBER 2005						
Gross carrying amount	517	9	28	55	4	613
Accumulated amortisation and impairment	(46)	–	(5)	(21)	–	(72)
Net carrying amount	**471**	**9**	**23**	**34**	**4**	**541**

Goodwill acquired relates to the acquisition of the remaining 50 % of the shares of SCA on 30 December 2005. As the cost of the acquisition exceeded the fair value of the acquired interest, an impairment charge of €21 million has been recorded. The impairment charge was offset by an increase of the deferred tax asset on losses carried forward in the French tax group of €28 million following this acquisition.

13. Investments in associates and joint ventures

A list of significant investments in associated companies and joint ventures as held by the Group's companies is included in Appendix A. The movements in investments in associates and joint ventures are as follows:

€ MILLION	2006	2005
Balance at 1 January (2005: 20 April)	**585**	**–**
Acquisition of former Basell group	–	700
Share in net result	86	25
Dilution gain	17	–
Dividends received	(33)	(27)
Additions	222	15
Disposals	(39)	–
Effect of full consolidation of Petroken Petroquimica Ensenada S.A. as of 1 September 2005	–	(47)
Effect of full consolidation of Société du Craqueur de l'Aubette S.A.S. as of 30 December 2005	–	(96)
Change in unrealised gain for securities available-for-sale	–	1
Change in the fair value of the cash flow hedge	–	1
Currency exchange effects	(36)	13
At 31 December	**802**	**585**

The dilution gain of €17 million relates to the shareholding in HMC, following the issuance of shares by HMC to PTT, where the issuance value exceeded the equity value.

The additions reflect:

- Basell's investment made of €128 million into the newly formed joint venture Saudi Ethylene & Polyethylene Company Ltd. in Saudi Arabia in the second quarter 2006.
- The investment of €66 million made into the newly formed joint venture Al-Waha Petrochemicals Ltd. in Saudi-Arabia during the second half year of 2006.
- The acquisition of shares in SunAllomer Ltd. (Japan), PolyMirae Co. Ltd. (South Korea) and HMC Polymers Co. Ltd. (Thailand) previously owned by Taiwan Polypropylene Co. Ltd. (Taiwan) for a total amount of €28 million.

The disposal relates to the sale of Basell Taiwan Holdings B.V., which was holding a 36 % interest in Taiwan Polypropylene Co. Ltd.

A summarised statement of assets and liabilities as at 31 December of the associated companies and joint ventures accounted for under the equity method, and the Group's share thereof, is set out below:

€ MILLION	ASSOCIATES AND JOINT VENTURES ASSETS AND LIABILITIES		GROUP'S SHARE	
	2006	2005	2006	2005
Non-current assets	2,461	1,795	848	689
Current assets	1,385	1,044	523	415
Total assets	**3,846**	**2,839**	**1,371**	**1,104**
Non-current liabilities	742	720	272	275
Current liabilities	695	596	297	244
Net assets	**2,409**	**1,523**	**802**	**585**

A summarised income statement, for the year 1 January through 31 December 2006 (2005: 20 April through 31 December), for associated companies and joint ventures accounted for under the equity method, and the Group's share thereof for the periods for which the respective companies have been accounted for by the Group as associates and joint ventures accounted for under the equity method, is set out below:

€ MILLION	ASSOCIATES AND JOINT VENTURES RESULTS		GROUP'S SHARE	
	2006	2005	2006	2005
Revenue	3,153	1,484	1,284	617
Cost of sales	(2,752)	(1,356)	(1,135)	(571)
Gross profit	**401**	**128**	**149**	**46**
Net operating expenses	(95)	(44)	(39)	(18)
Operating profit before finance costs	**306**	**84**	**110**	**28**
Finance income	12	18	4	8
Finance expense	(32)	(16)	(13)	(6)
Net results from associates and joint ventures	34	4	11	2
Profit before taxation	**320**	**90**	**112**	**32**
Income tax expense	(70)	(20)	(26)	(7)
Profit for the period	**250**	**70**	**86**	**25**

14. Available-for-sale financial assets

The investments of Group companies in German limited partnerships with a limited company as general partner have been classified as available-for-sale financial assets based on IAS 32/39 and amounted to €43 million as at 31 December 2006 (2005: €36 million).

The Group owns shares in Royal Dutch Shell plc and BASF AG in relation to former management compensation schemes. These shares are recorded at a fair value of €2 million as at 31 December 2006 (2005: €5 million).

15. Inventories

€ MILLION	31 DEC 2006	31 DEC 2005
Finished goods	777	775
Raw materials and supplies	236	224
Work in process	3	3
Total	**1,016**	**1,002**

Allowances to adjust inventories to net realisable value are deducted from inventories and charged to Cost of sales, and amounted to €7 million (2005: €6 million).

16. Trade receivables

€ MILLION	31 DEC 2006	31 DEC 2005
Trade receivables	1,417	1,343
Amounts owed by associates and joint ventures	115	82
Receivables from licensing activities	68	112
	1,600	**1,537**
Allowance for doubtful accounts (of which related to licensing receivables €5 million) (2005: €5 million)	(49)	(59)
Total	**1,551**	**1,478**

Under the European receivables securitisation programme, receivables for an amount of €431 million (2005: €377 million) were sold. Receivables for an amount of $167 million (2005: $163 million) were sold under the North American receivables securitisation programme. Due to the fact that Basell acts as collection agent and is retaining the majority of the credit and currency risks, the securitisation programmes do not qualify for de-recognition in compliance with IAS 39, the Group continues to recognise receivables under both programmes. The associated liability is recognised under current liabilities.

17. Other receivables

€ MILLION	31 DEC 2006	31 DEC 2005
Receivable from insurance companies (see note 30)	62	16
Environmental indemnity from previous shareholder of Basell Group (see note 24)	30	23
CO_2 emission rights	24	21
Fair value of derivative instruments (see note 34)	14	18
Receivable from the sale of assets	1	5
Other receivables	30	33
Total	**161**	**116**

18. Cash and cash equivalents

€ MILLION	31 DEC 2006	31 DEC 2005
Cash	288	303
Short-term deposits	382	287
Total	**670**	**590**

Under the Senior Facility Agreement and the Italian Facility Agreement, the Group is obliged to deposit certain proceeds from disposals and certain insurance proceeds into designated bank accounts. The Group can use such proceeds only to carry out certain acquisitions, capital expenditures and debt repayment in the 12 month period following the deposit. Afterwards the unused amounts are applied to mandatory repayment of the debt.

In 2005 the Group deposited on such accounts the proceeds from the sale of the 100 % subsidiary Basell Brasil Poliolefinas Ltda. (Brazil). The total amount on such bank accounts at 31 December 2005 was €199 million.

In 2006 further disposals took place such as the disposal of the Components Business and Custom Catalyst assets and the disposal of the participations of Basell in HMC and TPP in the frame of the restructuring of certain Asia entities (see note 9).

The proceeds from sales and the outstanding funds were used for investments into the two newly founded joint ventures in Saudi Arabia and the purchase of participations in SunAllomer Co. Ltd. and PolyMirae Co. Ltd. As of 31 December 2006, the balance outstanding on such designated bank accounts amounted to €28 million.

Short-term deposits were placed for periods less than 1 month.

An amount of $17 million of cash on bank accounts is pledged as stand-by equity for associated companies.

19. Issued capital and reserves

At 1 August 2005, the issued and paid-up capital of the Company amounted to 403,226 shares (with common voting rights) of €124 each, totalling €50 million. Upon incorporation of the Company, its shareholder BI S.à r.l., contributed €860 million worth of net assets to the Company. The excess over the issued and paid-up capital was accounted for as share premium and amounted to €810 million.

The acquisition of additional shares of certain Asian entities (see note 9) was treated as a step-acquisition. Basell fully fair valued the underlying net assets of its total investment at the date of the transaction. Basell's share in the fair value uplift of the investment's inventory amounted to €2 million, which was credited directly to the revaluation reserve within equity at the transaction date. As the related inventory was fully sold as per 31 December 2006, the €2 million revaluation reserve was realised and transferred to retained earnings.

Other reserves changed as followed:

€ MILLION	TRANSLATION RESERVE	HEDGING RESERVE	FAIR VALUE RESERVE	CAPITAL CONTRIBUTION	TOTAL
Balance at 20 April 2005	–	–	–	–	–
Change during the year	3	4	1	(4)	4
Balance at 31 December 2005	**3**	**4**	**1**	**(4)**	**4**
Change during the year	(19)	12	–	–	(7)
Balance at 31 December 2006	**(16)**	**16**	**1**	**(4)**	**(3)**

Transactions recorded in other reserves are recognised net-of-tax. In 2006 no tax effect resulted from exchange differences on translation of foreign operations (2005: €2 million).

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statement of foreign operations as well as from the translation of liabilities that hedge the Company's net investments in foreign subsidiaries. The translation reserve is inclusive of the effects of the net investment hedges as further described in note 34.

Hedging reserve

The hedging reserve comprises 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.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised.

Capital contribution

Following the contribution of equity in Basell Holdings B.V., a tax assessment for capital tax duty was received for an amount of €4 million, which was recorded in Other reserves in 2005. Basell Holdings B.V. is contesting the assessment and to the extent the outcome is favourable the amount will be reversed.

20. Interest-bearing loans and borrowings

€ MILLION	31 DEC 2006	31 DEC 2005
NON-CURRENT INTEREST-BEARING LOANS AND BORROWINGS		
Senior Facility Agreement and Italian Facility Agreement [a]	1,298	1,577
High Yield Notes, due 10 August 2015, $615 million, 8.375 % [b]	466	519
High Yield Notes, due 10 August 2015, €500 million, 8.375 % [b]	500	500
Bonds, due 15 March 2027, $300 million, 8.1 % [c]	228	253
Other [d]	61	34
	2,553	**2,883**
Less: Current portion	(107)	(68)
Less: Financing fees and costs to be amortised	(62)	(70)
	2,384	**2,745**
CURRENT INTEREST-BEARING LOANS AND BORROWINGS		
Receivables securitisation programmes [e]	558	514
Current portion of non-current debt [a], [d]	107	68
Financial payables to associates [f]	9	8
Other	24	13
	698	**603**
Total interest-bearing loans and borrowings	3,082	3,348

a) Senior Facility Agreement and Italian Facility Agreement

The Company and a number of its subsidiaries are party to a Senior Facility Agreement for an aggregate amount of up to €1,950 million (of which €1,600 million multicurrency term loans and €350 million multicurrency revolving facility) and, in a separate transaction, Italian subsidiaries of the Company have become party to a term loan under a separate Italian Facility Agreement for an aggregate amount of €143 million (following which an equivalent amount was repaid under the Senior Facility Agreement). ABN Amro Bank N.V. is acting as agent and security agent of both facilities.

During the financial year 2006, the Group made mandatory semi-annual repayments in an amount of €41 million (2005: €27 million), a mandatory repayment due to excess cash generated of €57 million (2005: nil) and a voluntary repayment of €150 million (2005: nil). As at 31 December 2006, the total amount outstanding under the Senior Facility Agreement amounted to €1,181 million (2005: €1,441 million) and under the Italian Facility Agreement €117 million (2005: €136 million).

At 31 December 2006, the following subsidiaries of the Company were borrowers of term loans under the Senior Facility Agreement: Basell Polyolefine GmbH, Basell USA Inc., Basell Poliolefinas Ibérica S.L., Basell Production France S.A.S., Basell Benelux B.V. and Basell Holdings B.V.

At 31 December 2006, the following subsidiaries of the Company were borrowers of term loans under the Italian Facility Agreement: Basell Poliolefine Italia S.r.l. and Basell Brindisi S.r.l.

The €350 million revolving facility is available for drawing by Basell Finance Company B.V. under which €20 million are allocated to an ad hoc ancillary facility to enable the issuance of bank guarantees. At 31 December 2006, €2 million was drawn under this facility in the form of bank guarantees.

Each borrower under the Senior Facility Agreement and/or the Italian Facility Agreement has granted security over all of its assets to secure its obligations as a borrower under such agreements, subject to typical limitations required in the relevant jurisdiction and obligations to third parties. The security granted by Basell Poliolefine Italia S.r.l., Basell Brindisi S.r.l. and Basell Benelux B.V. for their respective obligations as borrowers is, among others, limited to the amounts permitted to be secured under the 2027 Bonds (see section b).

The Company and the following subsidiaries of the Company are providing guarantees for the borrowers and the other guarantors under the Senior Facility

Agreement, subject to typical limitations required in the relevant jurisdictions and other obligations to third parties: Basell Polyolefine GmbH, Basell Bayreuth Chemie GmbH, Basell Germany Holdings GmbH, Basell Polyolefins UK Ltd., Basell UK Holdings Ltd., Basell Canada Inc., Basell Asia Pacific Ltd., Basell Holdings B.V., Basell International Holdings B.V., Basell Benelux B.V., Basell Europe Holdings B.V., Basell Finance Company B.V., Basell Sales & Marketing Company B.V., Basell (Thailand) Holdings B.V., Basell Finance & Trading Company B.V., Basell Polyolefins Company B.V.B.A., Basell Poliolefinas Ibérica S.L., Basell Ibérica Poliolefinas Holdings S.L., Basell Production France S.A.S., Basell Polyéthylène S.A.S., Basell Polyoléfines France S.A.S., Société du Craqueur de l'Aubette S.A.S., Basell Funding S.à r.l., Nell Acquisition (US) LLC, Basell Finance USA Inc., Basell North America Inc. and Basell USA Inc.

The Company and the following subsidiaries of the Company are providing guarantees for the borrowers and the other guarantors under the Italian Facility Agreement, subject to typical limitations required in the relevant jurisdictions and other obligations to third parties: Basell Italy Holding S.r.l., Basell Poliolefine Italia S.r.l., Basell Brindisi S.r.l., Basell Polyolefine GmbH, Basell Bayreuth Chemie GmbH, Basell Germany Holdings GmbH, Basell Polyolefins UK Ltd., Basell UK Holdings Ltd., Basell Canada Inc., Basell Asia Pacific Ltd., Basell Holdings B.V., Basell International Holdings B.V., Basell Benelux B.V., Basell Europe Holdings B.V., Basell Finance Company B.V., Basell Sales & Marketing Company B.V., Basell (Thailand) Holdings B.V., Basell Finance & Trading Company B.V., Basell Polyolefins Company B.V.B.A., Basell Funding S.à r.l., Nell Acquisition (US) LLC, Basell Finance USA Inc., Basell North America Inc. and Basell USA Inc.

Each company acting as guarantor under the Senior Facility Agreement and/or the Italian Facility Agreement has granted security over all of its assets to secure its obligations as guarantor under such agreements. The security granted by Basell Poliolefine Italia S.r.l. for its obligation as guarantor is limited to the obligations of its subsidiary Basell Brindisi S.r.l. and is, like the security granted by Basell Benelux B.V., limited to the amounts permitted to be secured under the 2027 Bonds (see section b).

The companies providing guarantees and security under the Senior Facility Agreement and/or the Italian Facility Agreement aggregate in total more than 85 % of the consolidated value of the Basell group in terms of total assets and EBITDA over the last 12 months as per contractual definitions.

The interest rate for the facilities under the Senior Facility Agreement is LIBOR or EURIBOR (on the loans in US dollars and Euro, respectively) for the relevant currency plus 175 – 300 basis points depending on each of the three tranches of the facility. The interest rate under the Italian Facility Agreement is EURIBOR plus 175 basis points. Based on the Group's performance the interest rate of two tranches was reduced during 2006 by 50 and 25 basis points respectively. Based on future performance, the interest rate on a tranche with an outstanding amount at 31 December 2006 of €282 million can be further reduced by 25 basis points. The commitment fee on the unutilised portion of the revolving facility amounts to 75 basis points.

Under the Senior Facility Agreement and the Italian Facility Agreement, the Group is required to comply with covenants related to its financial performance and condition and the conduct of its business and with monthly, quarterly and annual financial reporting obligations related to its financial performance and condition. Non compliance with any of these covenants would constitute an event of default under the relevant agreement. The Group is in compliance with these covenants and expects to remain so during the rest of 2007.

Financial covenants include ratios in respect of EBITDA to net interest expense, net total borrowings to EBITDA, net senior borrowings to EBITDA, cash flow to debt service and an agreed maximum capital expenditure in accordance with contractually agreed definitions. Financial covenants are calculated and tested quarterly. As at 31 December 2006, the Group was in compliance with these financial covenants. The financial outlook for the year 2007 indicates that the Group expects to meet its financial covenants.

The repayment obligation for the year 2007 amounts to €41 million (2006: €54 million). Additional repayments are mandatory for 50 % of the excess cash generated by the Group in 2006 (calculated according to contractual definitions) under an annually applied 'cash sweep' mechanism. The amount of the cash sweep is determined based on these consolidated financial statements and is estimated at €64 million, which is included in the Current portion.

Any payment default or acceleration of payments under any other agreement related to financial indebtedness of the Company or any of its subsidiaries (including but not limited to the $300 million bonds due 15 March 2027, the High Yield Notes due 2015, the securitisation programmes and certain local facilities), if in value higher than €15 million, would represent an event of default under the Senior Facility Agreement and the Italian Facility Agreement entitling the relevant lenders to accelerate the repayment of such facilities.

Under an Intercreditor Agreement, dated 1 August 2005, the lenders under the Senior Facility Agreement, the Italian Facility Agreement, certain hedging banks, the Agent, Security Trustee and Issuing Bank of the High Yield Notes, the Company and all subsidiaries of the Company which are borrowers or guarantors under the Senior Facility Agreement and/or the Italian Facility Agreement and/or the High Yield Notes, have contractually agreed that the debt of the subsidiaries of the Company will rank in right and priority of payment in the following order: (1) the debt of the subsidiaries of the Company under the Senior Facility Agreement, the Italian Facility Agreement and certain hedging arrangements, pari passu between themselves; (2) the debt of the guarantors under the High Yield Notes guarantees and the debt of Basell Holdings B.V. to the Company for the on-lending of the High Yield Notes proceeds; (3) the intercompany debt (other than intercompany debt due, owing or incurred by the Company), and that the debt of the Company will rank in right and priority of payment in the following order: (1) the debt under the High Yield Notes, the debt under certain hedging arrangements, the debt of the Company as guarantor under the Senior Facility Agreement and the Italian Facility Agreement and (2) any debt by the Company to the shareholders and any intercompany debt due, owing or incurred by the Company.

The repayment schedules of the Senior Facility Agreement and Italian Facility Agreement are:

€ MILLION	TOTAL
2007	105
2008	46
2009	46
2010	47
2011	54
2012	31
2013	484
2014	485
Total	**1,298**

b) High Yield Notes due 2015

Under an indenture dated 10 August 2005, the Company issued €500 million and $615 million High Yield Notes. The coupon rate for both High Yield Notes amounts to 8.375 % and the coupon dates are 15 August and 15 February. Both High Yield Notes mature on 10 August 2015. The Bank of New York acts as Trustee, Registrar, Paying Agent, Transfer Agent and Listing Agent. ABN AMRO Bank N.V. acts as Security Agent.

The High Yield Notes are not registered under the 1993 United States Securities Act and are offered only to qualified institutional buyers under Rule 144A under the Securities Act and to non-US persons outside the United States in reliance on Regulation S of the Securities Act. The High Yield Notes are not offered to the public as defined in the European Union Prospectus Directive 2003/71/EC.

Under the High Yield Notes the Group is required to comply with covenants related to the conduct of its business. Non compliance with any of these covenants would constitute an event of default. The Group is in compliance with these covenants and expects to remain so during the rest of 2007.

The following subsidiaries of the Company have provided guarantees for the obligations of the Company as issuer of the High Yield Notes subject to typical limitations required in the relevant jurisdictions: Basell Polyolefine GmbH, Basell Bayreuth Chemie GmbH, Basell Germany Holdings GmbH, Basell Polyolefins UK Ltd., Basell UK Holdings Ltd, Basell Canada Inc., Basell Asia Pacific Ltd, Basell Holdings B.V., Basell International Holdings B.V., Basell Benelux B.V., Basell Europe Holdings B.V., Basell Finance Company B.V., Basell Funding S.à r.l., Nell (US) Acquisition S.à r.l., Nell Acquisition (US) LLC, Basell Finance USA Inc., Basell North America Inc., Basell USA Inc. The guarantee granted by Basell Benelux B.V. is, among others, limited to the amounts permitted under the 2027 Bonds (see below).

The Company as issuer of the High Yield Notes has granted a pledge over its shares in its subsidiary Basell Funding S.à r.l. and a pledge over the loan whereby the proceeds of the High Yield Notes have been on-lent to Basell Holdings B.V. Such security is a second rank security subordinated to any security granted to the lenders under the Senior Facility Agreement.

The Company, the subsidiaries of the Company providing guarantees for the debt of the Company under the High Yield Notes and the Agent, Security Trustee and Issuing Bank of the High Yield Notes, are party to an Inter-creditor Agreement dated 1 August 2005 with the senior lenders. For details see section a).

c) Bonds due 2027

A subsidiary of the Company has outstanding fixed interest private placements in the US-bond market (exempt from registration under section 144A of the United States Securities Act) issued on 17 March 1997 with JP Morgan Chase Bank acting as Fiscal and Paying Agent.

The bonds with a nominal value of $300 million have an agreed maturity date on 15 March 2027. The coupon rate amounts to 8.1 % and the coupon dates are 15 September and 15 March.

The Bonds are guaranteed by Basell Holdings B.V. No guarantees are provided directly under the 2027 Bonds by any other subsidiaries of the Company. However, the 2027 Bonds provide certain restrictions with respect to the level of maximum debt that can be incurred and security that can be granted by the operating companies in Italy, The Netherlands and the United States and which are fully owned subsidiaries of Basell Holdings B.V. As at 31 December 2006, such subsidiaries were, in The Netherlands, Basell Benelux B.V. (indirectly controlled by Basell Holdings B.V. through the intermediate holding company Basell Europe Holdings B.V.) and, in Italy, Basell Poliolefine Italia S.r.l. and Basell Brindisi S.r.l. (indirectly controlled by Basell Holdings B.V. through the intermediate holding company Basell Italy Holding S.r.l.).

d) Other non-current interest bearing loans and borrowings

On 10 October 2006, Basell Australia Pty. Ltd. has entered into an agreement for a secured committed revolving credit facility of Australian Dollar 70 million (€42 million) from an Australian branche of a commercial bank in the Netherlands. As at 31 December 2006, the facility was fully drawn. There is no mandatory repayment obligation for the year 2007. The outstanding amount as at 31 December 2005 of a previous facility in an amount Australian Dollar 20 million was fully repaid during 2006 and the facility cancelled in connection with the new financing. Basell Australia Pty. Ltd. has granted fixed and floating security on all of its assets to the new lender.

On 31 December 2006, Basell Holdings Middle-East GmbH had outstanding an amount of Saudi Riyal 74 million (€15 million), guaranteed by a third party, which is repayable out of dividends and other proceeds from capital transactions from the Group's joint venture in Saudi Arabia. Thereof an amount of €2 million

has been included in 'Current portion of non-current debt'.

In addition, as at 31 December 2006 the Group had outstanding financing arrangements in the USA (€1 million), Spain (€1 million) and China (€2 million).

The interest rates on these loans and borrowings are based on benchmark rates.

e) Receivables securitisation programmes

Two securitisation programmes were entered into on 29 July 2005 by subsidiaries of the Company in Europe and the US and Citibank, N.A., Citicorp Trustee Company Limited, Citigroup Centre and Eureka Securitisation plc. The programmes provide funding up to €500 million and $200 million, respectively.

On 29 June 2006, in connection with the transfer of commercial activities from Basell Polyolefins Company B.V.B.A. to a newly incorporated company in The Netherlands, Basell Sales & Marketing Company B.V., a new European receivables securitisation programme was entered into by Basell Sales & Marketing Company B.V., at substantially the same terms as the previous programme. The two programmes ran in parallel up to 6 October 2006, the date at which the contract with Basell Polyolefins Company B.V.B.A. was terminated.

As at 31 December 2006, an amount of €431 million was funded under the European receivables securitisation programme out of sold receivables and under the North American programme $167 million (€127 million). In compliance with IAS 39, these receivables securitisation programmes do not qualify for de-recognition and consequently are recognised as a liability.

As part of the security under the two securitisation programmes, pledges are granted over the bank accounts of the subsidiaries of the Company collecting the receivables.

The companies being party to the programmes are required to comply with covenants related to the conduct of their business and the nature of the receivables sold under the programmes. Non compliance with any of these covenants would constitute an event of default. The companies are in compliance with these covenants and expect to remain so during the rest of 2007.

f) Financial payables to associates and joint ventures and other bank debt

Other current interest bearing loans and borrowings represent amounts drawn under uncommitted credit facilities. Interest is based on market-related terms.

g) Average interest cost/effective interest rates

The weighted average rate of interest for interest bearing loans and borrowing for the period ended 31 December 2006 amounted to 6.6 % (2005: 6.1 %). The effective interest rates of interest-bearing loans and borrowings outstanding as at 31 December 2006 are included in note 34.

h) Maturity

Based on the nature and mandatory repayment schedule of the interest bearing loans and borrowings, the aggregate maturities, before deduction of financing fees and costs to be amortised of €62 million, are:

€ MILLION	TOTAL
2007	698
2008	49
2009	51
2010	50
2011	99
After 2011	2,197
Total	**3,144**

21. Employee benefits

€ MILLION	31 DEC 2006	31 DEC 2005
Present value of unfunded obligations	209	191
Present value of funded obligations	395	386
Total present value of obligations	**604**	**577**
Fair value of plan assets	(294)	(243)
Funded Status	**310**	**334**
Unrecognised actuarial gain	23	10
Recognised liability of defined benefit obligations	**333**	**344**
Other post retirement benefits	135	138
Post-retirement benefits	**468**	**482**
Termination benefits	13	15
Non-current portion management incentive schemes	23	17
Non-current employee benefits	**504**	**514**
Variable compensation schemes	65	34
Vacation days allowances	15	16
Termination benefits	5	5
Other personnel related costs	34	44
Current employee benefits	**119**	**99**

POST-RETIREMENT BENEFITS

a) Pensions

Substantially all of the Group's employees in Germany are covered under several defined benefit pension plans, which provide for benefits based on years of service and average rates of pay. Up to a certain salary level, the benefit obligations regarding the majority of the German employees are covered by contributions of the Group and the employees to the Pensionskasse der BASF VVaG. In addition, for employees earning in excess of the social security ceiling, the Group offers an unfunded supplementary plan. For a separate group of employees there is a separate unfunded pension plan for the full pension obligations.

Some German pension schemes are multi-employer pension plans; however, these schemes are being accounted for as if they were defined contribution plans, because the Group is not in the position to identify its share of the financial position and performance with sufficient reliability for accounting purposes. This assessment is based on the fact that the schemes expose the Group to significant actuarial risks associated with the employees of the other participating member companies. As a consequence, no consistent and reliable basis for the allocation of the scheme assets and obligations is available to the Group.

The Group's estimated share of the defined benefit obligation and plan assets as at 31 December 2006 amounted to €263 million (2005: €261 million) and €266 million (2005: €247 million), respectively, and has been calculated and based on a discount rate of 4.50 % (2005: 4.25 %).

Substantially all of the Group's employees in the United States and Canada are covered under non-contributory, defined benefit pension plans, which provide for benefits based on years of service and average rates of pay. The Group's funding policy is to contribute annually not less than the amounts set forth in employee benefit and tax laws. Employees in the United States are eligible to participate in defined contribution plans (Employee Savings Plans) by contributing a portion of their compensation. The Group matches a part of the employees' contributions.

Outside Germany, the United States and Canada, group companies maintain plans that are at least in accordance with legal and fiscal requirements of the country in which the employees are engaged.

Following the acquisition of the Basell group, all employees who were members of previous shareholder pension schemes (except those in Germany) were obliged to leave such schemes for any benefits generated after 1 August 2005. Individuals affected were given the option of transferring their past service benefits to newly offered schemes or leaving them in the respective previous shareholder pension schemes as deferred members. The transfer values or cost implications of leaving previous shareholder schemes including 2005 have been fully considered in 2006.

In Italy, employees are covered by a benefit scheme provided for in accordance with local legislation. Benefits under this scheme are approximately one month's pay for each year of service (yearly adjusted based on the cost-of-living index) and payable when the employee is leaving the Group. The recognised liability represents the defined benefit obligation of the Group.

The following table sets forth changes in the benefit obligations and the fair value of plan assets of defined benefit pension plans other than multi-employer plans:

€ MILLION	2006	2005
Present value of benefit obligation at beginning of year (2005: 20 April)	**577**	**–**
Present value of benefit obligation acquired through business combinations and similar transactions	33	562
Current service cost	20	8
Past service cost	6	1
Interest cost	29	11
Actuarial (gains) / losses	–	(8)
Benefits paid	(27)	(8)
Exchange rate effects	(34)	11
Present value of benefit obligation at year end	**604**	**577**
Fair value of plan assets at beginning of year (2005: 20 April)	**243**	**–**
Fair value of plan assets acquired through business combinations and similar transactions	28	225
Actual return on plan assets	27	7
Actuarial gains / (losses)	7	2
Contributions by employer	31	7
Benefits paid	(20)	(6)
Exchange rate effects	(22)	8
Fair value of plan assets at year end	**294**	**243**
Funded status	**(310)**	**(334)**
Unrecognised actuarial gain	(23)	(10)
Liability recognised	**(333)**	**(344)**

In 2005 existing liabilities and plan assets of the former Basell group were acquired at 1 August 2005. In 2006 the Group acquired a cracker in Münchsmünster, Germany, and finalised the transfer of employees from schemes of former shareholders.

The present value of the defined benefit pension obligations as at 31 December 2006 comprises of €395 million (2005: €386 million) related to funded obligations and €209 million (2005: €191 million) related to unfunded obligations. These amounts exclude the plan assets and obligations related to the German multi-employer plan, which is treated as a defined contribution plan.

The Group's pension plan asset allocation during the period and target allocation for its plans are as follows:

	2006		2005	
	ACTUAL	TARGET	ACTUAL*	TARGET
CANADA				
Equity securities	62 %	60 %	60 %	60 %
Fixed income	38 %	40 %	38 %	40 %
Other	–	–	2 %	–
UNITED KINGDOM				
Equity securities	56 %	75 %	66 %	75 %
Fixed income	42 %	25 %	33 %	25 %
Other	2 %	–	1 %	–
UNITED STATES				
Equity securities	61 %	60 %	61 %	60 %
Fixed income	33 %	40 %	33 %	40 %
Other	6 %	–	6 %	–

* 2005 actual relates to the period 20 April until 31 December 2005

Funded plans in other European countries are insured plans and the asset allocation is not meaningful in these financial statements.

The investment strategy of the Group's non-insured funded defined benefit plans is to achieve consistent positive returns, after adjusting for inflation, and to maximise long-term total return within prudent levels of risk. Risk is minimised through the diversification of investments across and within various asset categories.

Net periodic benefit cost includes the following components:

€ MILLION	2006	2005
Service cost	20	9
Interest cost	29	11
Expected return on plan assets	(20)	(7)
Curtailments and settlements	1	–
Amortisation of past service cost	6	–
Net periodic benefit cost for defined benefit plans	**36**	**13**
Net periodic benefit cost for defined contribution (incl. multi-employer plans)	9	6
Total benefit cost	**45**	**19**

The estimated employer cash contributions for all pension plans for the next period are:

€ MILLION	2007
Defined benefit schemes	38
Defined contribution schemes	4
Multi-employer schemes	5
Total benefit cost	**47**

The following table sets forth the principal assumptions on discount rates, projected rates of remuneration growth and expected rates of return on plan assets, where applicable. These assumptions vary for the different plans, as they are determined in consideration of the local conditions. The range of rates applicable to the principal plans is:

	NORTH AMERICA		EUROPE	
	2006	2005	2006	2005
Discount rate	4.75 % – 5.68 %	5.00 % – 5.50 %	4.20 % – 5.10 %	4.20 % – 5.00 %
Salary increase	4.00 % – 4.25 %	4.00 % – 4.25 %	2.50 % – 3.90 %	2.50 % – 3.75 %
Expected return on plan assets	7.50 % – 8.50 %	7.50 % – 8.50 %	5.45 % – 5.80 %	4.00 % – 6.30 %

The expected rate of return on assets was estimated based on the plan's asset allocation, a review of historical capital market performance, historical plan performance and a forecast of expected future asset returns. The Group reviews this long-term assumption on a periodic basis.

b) Other post retirement benefits

Some Group companies maintain defined benefit health care and life insurance plans covering eligible retired employees and their spouses. Generally, the medical plans pay a stated percentage of medical expenses reduced by deductibles and other coverage. These plans are unfunded. Life benefits are generally provided by insurance contracts. The Group retains the right, subject to existing agreements, to change or eliminate these benefits.

€ MILLION	2006	2005
Present value of benefit obligation at beginning of year (2005: 20 April)	**141**	**–**
Present value of acquired benefit obligation	2	138
Current service cost	5	2
Interest cost	7	3
Contributions by plan participants	1	1
Actuarial (gains) / losses	1	(1)
Benefits paid	(6)	(4)
Exchange rate effects	(11)	2
Present value of benefit obligation at year end	**140**	**141**

Unfunded status	**(140)**	**(141)**
Unrecognised actuarial loss	(5)	(3)
Liability recognised	**(135)**	**(138)**

Net design of the plan of the United States (‘US’) as result of a change in legislation in 2005 entitles Basell to potential reimbursements from the US government. The present value of the reimbursements amounts to €7 million as at 31 December 2006 and is presented under non-current assets.

Net periodic benefit cost for other post-retirement benefits includes the following components:

€ MILLION	2006	2005
Service cost	5	2
Interest cost	7	3
Net periodic benefit cost for other post retirement benefit plans	**12**	**5**

For the plans in the US a rate increase of 9.0 % in the per capita cost of covered health care benefits was assumed for the year 2007 (2005 assumption for 2006 was 9.6 %).This rate was assumed to decrease gradually to 5.0 % in 2011 and remain at that level thereafter. For the plans in Canada a rate increase of 8.0 % in the per capita cost of covered health care benefits was assumed for the year 2007 (2005 assumption for 2006 was 9.0 %). This rate was assumed to decrease gradually to 5.0 % in 2010 and remain at that level thereafter.

Assumed health care cost trends have a significant effect on the amounts reported for the health care plans. The effect of a one percentage point increase (decrease) in the annual assumed health care cost trend rates would increase (decrease) the accumulated post-retirement benefit obligation by €6 million (€5 million) and the net periodic benefit cost by €0.5 million (€0.4 million).

Assumed discount rates are the same as for the pension plans.

Termination benefits

In Germany, the Group has offered voluntary packages to employees (early retirement scheme) aged 55 and above to work part-time during the subsequent 3 years before early retirement. Upon signing of such a voluntary agreement, the Group is recognising the liability. The movement of the Termination benefits is the following:

€ MILLION	2006	2005 (20 APR - 31 DEC)
Termination benefits at beginning of period	**20**	**–**
Termination benefits upon acquisitions	1	21
Additions	2	2
Utilisations	(5)	(3)
Termination benefits as at end of period	**18**	**20**

Management incentive schemes

STOCK OPTIONS

The Group has granted stock options on shares of Royal Dutch Shell plc to senior management between 1999 and 2001. The options were granted according to the particular option plans and fully vested immediately for periods of ten years at prices not less than the fair market value at the date of grant. As from 1999, 10-year options were granted which can only be exercised after a period of three years following the date of grant.

The following table shows the movements in the number of outstanding options:

NUMBER OF STOCK OPTIONS	2006	2005
Options outstanding at beginning of year (2005: 1 August)	912,500	1,005,500
Exercised	(66,000)	(66,000)
Expired	(9,000)	–
Cancelled	–	(27,000)
Outstanding as at end of the year	**837,500**	**912,500**

The weighted average exercise price at 31 December 2006 of the outstanding options in Royal Dutch Shell plc (in the range of €23.55 – €30.79) is €29.33 (2005: €28.92). The weighted average remaining contractual life of these options is 3.6 years (2005: 4.5 years).

STOCK APPRECIATION RIGHTS

Furthermore, the Group granted to senior management from 2001 to 2005 stock appreciation rights in relation to shares of Royal Dutch Shell plc and BASF AG. The tranche of stock appreciation rights 2005 were the last being granted.

The following table shows the movement in the outstanding stock appreciation rights:

NUMBER OF STOCK APPRECIATION RIGHTS	ROYAL DUTCH SHELL PLC	BASF AG
Granted rights outstanding at 1 August 2005 in Basell group	**744,444**	**388,774**
Exercised in 2005	–	(31,953)
Expired in 2005	(6,940)	(2,770)
Granted rights outstanding on 31 December 2005	**737,504**	**354,051**
Exercised in 2006	(80,340)	(83,578)
Granted rights outstanding on 31 December 2006	**657,164**	**270,473**

The weighted average 2006 reference prices for the rights for Royal Dutch Shell plc and BASF AG are €24.02 (2005: €23.44) and €47.48 (2005: €46.12) respectively in the range of €18.11 – €32.45 and €33.46 – €56.42 respectively. These reference prices reflect the market value of the underlying shares at the date of grant. The stock appreciation rights have a vesting period of 3 years as from the date of granting the rights and exercise periods up to 7 years thereafter.

Upon exercise of these rights, the holders of the stock appreciation rights are entitled for each right to the difference between the price of the underlying shares at that date and the reference price, provided that the underlying shares have increased in value by at least 30 % since the grant date and, for the rights granted in 2001, with a maximum of 100 % of the reference price.

The weighted average remaining contractual period of the stock appreciation rights for Royal Dutch Shell plc and BASF AG are 6.7 years (2005: 7.7 years) and 7.2 years (2005: 7.9 years), respectively.

Medium term management incentive plans

The Company introduced in 2005 two incentive schemes for key management replacing the former stock appreciation

right programme. One programme, the Medium Term Incentive ('MTI'), is based on a certain EBITDA performance of the Group and provides an aggregate cash bonus amount of up to 1 % of the Group's EBITDA if the EBITDA value exceeds a certain threshold amount. The pay-out to key management of this bonus is 50 % in the current year and 25 % in each of the two subsequent years, subject to the Group's EBITDA reaching in a pay-out year again the relevant threshold amount. A further programme to other key management members, the Senior Management Performance Pay ('SMPP'), allows for a cash bonus up to a certain percentage of the individual annual gross salary capped at a certain maximum amount and subject to the Group's EBITDA reaching the threshold amount under the MTI program. The pay-out of this programme occurs in equal instalments over three years and is for the subsequent two years subject to the Group EBITDA exceeding the threshold amount in a given pay-out year.

Long term management incentive plan

Members of the Management Board and Management Team of the Group invested in a partnership holding an indirect share of 2.2 % in the total equity of the Company.

In addition, Members of the Management Board and Management Team of the Group receive cash bonuses that accrue over a period of 5 years as from 1 August 2005. The employee expense in respect of the bonus element of the long term management incentive plan is recognised pro rata over the vesting period. This liability has been discounted using an interest rate of 4 %.

Under specific events, the possibility exists that certain transactions with regard to the partnership would have to be measured and recognised as an expense in the consolidated financial statements.

Non-current liability recognised

At 31 December 2006, the fair value of stock options, stock appreciation rights as well as medium and long term management incentive plans amounted to €23 million (2005: €17 million including a re-classification of €5 million related to the non-current portion of the medium term incentive plans which previously had been presented as current variable compensation).

Hedging

In connection with the stock option plan and stock appreciation rights, the Group hedged itself against share price increases by holding, at 31 December 2006, the beneficial interest in 1,442,004 shares (2005: 1,654,004 shares) in Royal Dutch Shell plc and 263,854 shares (2005: 303,854 shares) in BASF AG through a total return swap (note 34). In addition, at 31 December 2006 the Group held 52,460 shares (2005: 44,000 shares) in Royal Dutch Shell plc and 6,619 shares (2005: 53,400 shares) in BASF AG with a carrying value of €2 million (2005: €5 million).

22. Deferred income

Deferred income primarily relates to contractually agreed license fees which do not qualify for immediate revenue recognition (see accounting policy 3-6, subsection 'licensing revenue').

23. Deferred tax assets and liabilities

The tax effects of tax losses carried forward and the tax effects of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements, reduced by a valuation allowance where appropriate, are presented below:

€ MILLION	31 DEC 2006	31 DEC 2005
Property, plant and equipment	420	394
Intangible assets	89	98
Inventories	31	36
Investments	29	26
Deferred income	66	56
Other	55	52
Total deferred tax liabilities	**690**	**662**
Tax losses carried forward	341	368
Employee benefits	108	122
Non-current and contingent liabilities	47	52
Intangible assets	5	11
Deferred licensing income	23	24
Property, plant and equipment	8	15
Other	118	122
Total deferred tax assets	**650**	**714**
Less: Asset valuation allowance	(319)	(285)
Net deferred tax assets	**331**	**429**
Net deferred tax liability	**359**	**233**

Amounts recognised in the balance sheet based on the net asset or liability position by tax jurisdiction consist of:

€ MILLION	31 DEC 2006	31 DEC 2005
Deferred tax assets	22	80
Deferred tax liabilities	381	313

In assessing the recoverability of deferred tax assets, management considers whether it is probable that some portion or all of the deferred tax assets will be realised. The ultimate realisation of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating losses can be utilised or the temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax strategies in making this assessment.

In order to fully realise the deferred tax asset related to the net operating losses, the Group will need to generate sufficient future taxable income in the countries where these net operating losses exist. Based upon projections for future taxable income over the periods in which the net operating losses can be utilised or the temporary differences become deductible, management believes it is probable that the Group will realise the deferred tax assets, net of the existing valuation allowance.

At 31 December 2006, the Group had total tax losses carried forward for an amount of €1,128 million (2005: €1,144 million), for which a gross deferred tax asset is recognised of €341 million (2005: €368 million). A valuation allowance of €319 million (2005: €285 million) was established for these tax losses and other deferred tax assets.

The expiration of the tax losses carried forward and the related deferred tax asset, before valuation allowance, is as follows:

€ MILLION	TAX LOSSES CARRIED FORWARD	GROSS DEFERRED TAX ON LOSSES CARRIED FORWARD
YEAR		
2007	–	–
2008	–	–
2009	–	–
2010	1	–
2011	229	103
After 2011	462	94
Indefinite	436	144
	1,128	**341**

The valuation allowances are provided against net deferred tax assets in France, the United Kingdom, the Netherlands, the United States of America and Canada.

In most cases, provision for deferred taxes has not been made for taxes on possible future distribution of undistributed earnings by Group companies as such dividends will either be tax exempt and/or management expects to substantially reinvest the earnings of the companies concerned. Deferred taxes on possible future distributions of associated companies or joint ventures have been determined and are included in the deferred tax liability of €29 million (2005: €26 million) under Investments.

24. Provisions

€ MILLION	31 DEC 2005	ADDITION	PAYMENT	RELEASE	RECLASS-IFICATION	31 DEC 2006
Decommissioning obligations [(a)]	87	–	–	(4)	2	85
Earn out arrangement [(b)]	65	4	–	–	–	69
Unfavourable contracts [(c)]	56	5	(8)	–	–	53
Contingent liabilities [(d)]	45	–	–	–	(1)	44
Environmental provisions [(e)]	26	5	–	–	–	31
Redundancies [(f)]	11	–	–	(2)	(8)	1
Restructuring provision [(f)]	7	–	–	(3)	(4)	–
Other	8	–	(2)	–	–	6
Non-current	**305**	**14**	**(10)**	**(9)**	**(11)**	**289**
Decommissioning obligations [(a)]	3	–	(1)	–	(2)	–
Redundancies [(f)]	16	29	(20)	–	(10)	15
Restructuring provision [(f)]	–	–	–	–	4	4
Other	18	5	(8)	–	–	15
Current	**37**	**34**	**(29)**	**–**	**(8)**	**34**

a) Decommissioning obligations

At some sites Basell is contractually obliged to decommission its plants upon site exit. Basell has provided for the net present value of the estimated net costs. Typically such costs are incurred within three years after a plant's end of useful life. The release during 2006 relates to the dismantling of the Münchsmünster polyethylene plant following last year's explosion.

b) Earn out arrangement and impairment of SCA

The earn-out provision is related to the acquisition of the second 50 % of SCA in December 2005. Part of the purchase price consideration is contingent on the 2006 – 2008 financial performance of SCA ('earn-out'). No payment is due until the beginning of 2009. The initial 2005 estimate of the contingent purchase price of €95 million was reduced by €30 million in December 2006 based on current information. Any changes in a contingent purchase price consideration are considered to be an adjustment to the cost of the acquisition. Consequently the acquisition cost and hence the goodwill in the 2005 comparative figures was also reduced by €30 million resulting in a residual goodwill of €34 million.

Triggered by the reassessment of the earn-out liability Basell evaluated the recoverability of the investment in SCA. As of year end 2006 this business, representing a separate cash-generating unit, comprised €185 million of property, plant and equipment and the adjusted goodwill of €34 million. Basell determined the recoverable amount, based on a value in use concept, at €169 million and consequently impaired the remaining goodwill (€34 million) and property, plant and equipment by €16 million. The impairment was reported under Other expense. The value in use was derived using the discounted cash flow method in line with the fair valuation performed upon acquisition of SCA in December 2005. For the years 2007 – 2011 the cash flows were based on the business plan and for the years 2012 – 2021 (2021 is the estimated end of the economic useful life), on management assumptions. Considerations were given to the premises used in the business plan, expected market developments and historical trends.

The main driver in estimating future cash flows is the assumption of the cracker margin. The cracker margin was determined using the industry's market spot-price for ethylene (ICIS) reduced by the average actual discount in the years 2001 to 2006 less costs (feedstock and manufacturing costs). If the estimated future cracker margin would have been approximately 4 % higher throughout the remaining economic useful life, Basell would not have recognised an impairment charge.

As Basell does not expect the consolidated French tax group (of which SCA is a member) to be tax paying within the foreseeable future income taxes were neither taken into account in determining the cash flows nor in calculating the discount rate using a weighted average cost of capital (WACC). This resulted in a discount rate of 7.67 %.

c) Unfavourable contracts

Unfavourable contracts provision represents a liability on third party monomer and products purchase contracts, which have unfavourable pricing conditions compared to industry standards. This provision will be consumed in line with the term of the contract until the end of 2013.

d) Contingent liabilities

Contingent liabilities were established under IFRS 3 Business Combinations (see note 5) in connection with potentially disputed transfer values under various pension schemes and potential environmental and commercial claims. As a result of provisional accounting under IFRS 3, new information obtained on contingent liabilities within the 12 months timeframe after acquisition is adjusting the fair value as at the

acquisition date. Any increases to the valuation of contingent liabilities after the 12 months timeframe are recognised in the income statement.

e) Environmental provisions

The environmental provision is established in connection with identified contamination at the Ferrara and Brindisi sites in Italy. This provision is covered by an indemnification from the previous owner of these sites, and a matching receivable has been recorded. Additionally, a contingent liability of €15 million related to these sites has been recognised.

The timing of payments and the amounts required to settle the environmental provisions as well as the contingent liabilities are highly uncertain, as they are significantly influenced by the development of Italian legislation and business decisions of Basell's contractual partners.

f) Redundancies and restructuring provisions

During 2006 Basell continued to rationalise its European production foot print and to streamline its organisations in all businesses resulting in expected redundancy cost for staff reductions of €21 million. At year end a total obligation of €16 million is not related to contractual obligations (which are presented as liabilities).

Furthermore, the Group recognised a redundancy provision of €6 million and an employee benefits curtailment loss of €2 million in respect of its early retirement programme in North America.

The release during 2006 relates to the reversal of amounts provided for employees at the Münchsmünster site.

On 8 February 2006, Basell announced its intention to close its polypropylene plant in Pernis, The Netherlands by mid 2007. In view thereof the relevant Group Company gave notice of termination under certain supply and service contracts before 31 December 2005. Based on contractual arrangements a provision of €7 million was made in 2005. An agreement with the site operator in late 2006 allowed the group to release €3 million to income in 2006.

25. Other non-current liabilities

€ MILLION	31 DEC 2006	31 DEC 2005
Non-current redundancies	13	13
Miscellaneous non-current liabilities	33	14
Total	**46**	**27**

Miscellaneous non-current liabilities includes the contingent purchase price payment related to the acquisition of the Münchsmünster cracker in December 2006 of €19 million.

26. Trade payables

€ MILLION	31 DEC 2006	31 DEC 2005
Trade payables	880	872
Amounts due to associates	210	167
Capital expenditures payable	33	26
Total	**1,123**	**1,065**

27. Payables to tax authorities

€ MILLION	31 DEC 2006	31 DEC 2005
Corporate income tax	32	76
Taxes other than on income	32	32
Social security premiums	9	12
VAT (Value Added Tax)	74	29
Total	**147**	**149**

28. Accrued liabilities

€ MILLION	31 DEC 2006	31 DEC 2005
Accrued customer rebates and discounts	172	150
Accrued interest	49	53
Accrued CO_2 emission rights	23	22
Negative fair value of derivative instruments	15	2
Accrued retrospective insurance premiums	15	21
Accrued utility and feedstock cost	12	13
Accrued consultancy fees	6	10
Accrued IT service fees	2	4
Other accrued expenses	38	35
Total	**332**	**310**

29. Employee expense and numbers

The employee expense is a component of cost of sales, selling expenses, general and administrative expenses and research and development expenses.

€ MILLION	2006	2005 (20 APR - 31 DEC)
Employee remuneration	452	179
Social security contributions	71	28
Redundancy expense	29	14
Post-retirement expense	42	17
Other personnel related expense	14	13
Total	**608**	**251**

On 31 December 2006, the number of employees totalled to 6,603 (2005: 6,716). Due to business combinations during the year, the year end number of employees deviates from the average.

AVERAGE NUMBER OF EMPLOYEES	2006	2005 (20 APR - 31 DEC)
Europe	5,061	5,176
North America	1,009	1,035
Rest of the world	609	456
Total	**6,679**	**6,667**

30. Other income

€ MILLION	2006	2005 (20 APR - 31 DEC)
Gain on sale of non-current assets	24	–
Insurance proceeds	37	15
Other operating income	5	–
Total	**66**	**15**

In 2006 the Group recognised a gain of €10 million from selling the Components business and the Custom Catalyst assets in North America.

The Group recognised a gain on sale of €8 million related to the sale of a 2.21 % interest in HMC Polymers Company Ltd, and a gain on sale of €4 million related to the divestment of Basell Taiwan Holdings B.V.

Following the explosion in December 2005 at the polyethylene plant in the Münchsmünster Industrial Park in Germany, Basell raised a claim under its Property Damage insurance program following the decision of management to rebuild a *Hostalen* ACP plant at the same location. The assets were insured at full replacement value for a plant of similar design and capacity. Based on estimates and pending final settlement with the loss adjuster, the Company recognised net proceeds of €37 million in addition to the €15 million which were already accounted for in December 2005.

31. Other expenses

€ MILLION	2006	2005 (20 APR - 31 DEC)
Impairment losses on property, plant and equipment and goodwill	(56)	(40)
Exit fee supply and service contracts	–	(7)
Total	**(56)**	**(47)**

The 2006 impairment losses relate to the write-down of SCA as explained in note 24 and the write down of the Sarnia polypropylene plant (€6 million).

32. Net finance costs

€ MILLION	2006	2005 (20 APR - 31 DEC)
INTEREST INCOME	**35**	**12**
FINANCE EXPENSES		
Interest expense	(250)	(104)
Amortised financing fees and costs	(9)	(17)
Currency exchange results	(14)	(3)
Total	**(273)**	**(124)**
Net finance costs	**(238)**	**(112)**

33. Income tax (expense)/benefit

€ MILLION	2006	2005 (20 APR - 31 DEC)
Current income taxes	(77)	(64)
Deferred income taxes	(130)	66
(Expense)/benefit	**(207)**	**2**

The Group's operations are subject to income taxes in various jurisdictions with nominal income tax rates varying from 18 % to 40 %, which causes a difference between the weighted average nominal income tax rate, based on the taxable profits or losses and nominal tax rates in the applicable tax jurisdictions, and Luxembourg's nominal income tax rate of 29.63 % in 2006 (2005: 30.38 %).

A reconciliation of the expected tax benefit / (expense) at a weighted average nominal income tax rate in 2006 of 40 % (2005: 25 %) to the actual tax expense or benefit is as follows:

€ MILLION	2006	2005 (20 APR - 31 DEC)
Expected tax expense at weighted average nominal income tax rates	(152)	6
Tax credits on reinvesting proceeds of disposals	2	9
Local and state taxes	(16)	(7)
Net non-deductible costs / non-taxable income	1	(5)
Revisions to estimates made in prior year(s)	5	–
Release of deferred tax liability on deferred exchange gains US bonds	23	–
Release of valuation allowance on losses carried forward	–	28
Tax effect on losses carried forward expected not to be realised	(60)	(24)
Other	(10)	(5)
(Expense)/benefit	**(207)**	**2**

The increase in the 'weighted average nominal income tax rate' to 40 % is caused by profits mainly being made in jurisdictions with relatively high tax rates, while in other jurisdictions tax losses have been incurred.

The 'release of deferred tax liability on deferred exchange gains' of €23 million relates to a cumulative currency exchange gain (to Euro) on the $300 million Bonds due 2027 in the Netherlands, which used to be deferred for tax purposes. During 2006, Basell changed its tax treatment and is now recognising such cumulative currency exchange effects immediately in line with the treatment under IFRS, i.e. the temporary difference was eliminated. The change in tax treatment effectively

reduced the tax losses carried forward in the Netherlands, which were not being recognised and therefore resulted in tax benefit of €23 million.

The 'tax effect on losses carried forward expected not to be realised' includes the write-off of the net deferred tax asset in France recognised in prior periods of €19 million, which based on the business plan 2007 – 2011 is not likely to be utilised.

The amount of income tax expense or benefit recognised directly in Equity is disclosed in note 19.

34. Risk Management

In the ordinary course of business, the Group is exposed to volatility in commodity prices as well as to interest rate and currency risks. The Group uses, to a limited extent, derivative financial instruments to hedge exposure to such volatilities or risks.

By using derivative financial instruments to hedge exposures to changes in commodity prices, exchange and interest rates, the Group exposes itself to credit risk (unless exchange traded products are used, in which case the credit risk is covered by the clearing house related to the exchange) as well as market risk. The Group minimises the credit risk in derivative instruments by entering into transactions with high quality counterparties. The market risk associated with commodity price, foreign exchange and interest rate derivative contracts is managed by establishing and monitoring the exposure under such contracts.

Commodity prices

The Group enters, to a limited extent, into raw material short-term forward contracts for a portion of its anticipated contractual purchases to hedge the market price exposure. Exposures are typically hedged up to 3 months forward and are settled each month.

The Group enters, to the extent it has a surplus, into spot transactions of EU Emission Allowances.

The Group has started with activities on the London Metal Exchange in plastics futures and warrants. For the time being these activities are linked to physical operations and limited in nature due to the low liquidity of this new market and the lack of correlation with the physical market which would allow hedging.

Foreign currency rates

Group companies enter into transactions denominated in other than the functional currency and are therefore exposed to the foreign currency risk on receivables and payables. The Group assesses foreign currency risk by continually identifying and monitoring changes in exchange rate exposures that may have an adverse impact on the income statement of the relevant companies. The Group maintains risk management control systems to monitor foreign currency risk attributable to both the outstanding foreign currency positions and commitments. The risk management control systems involve the centralisation of foreign currency exposure management, the offsetting of exposures from different group companies and to estimate the expected impact of changes in foreign currency rates on the Group's income statement. The Group enters into foreign currency contracts to minimise exchange results of the Group net exchange position.

For contracts that economically hedge recognised monetary assets and liabilities in foreign currencies no hedge accounting is applied. Changes in the fair value of foreign currency forward contracts are reported in the income statement as currency exchange results offsetting the exchange results recognised on the assets and liabilities denominated in foreign currencies.

The Group has designated the $300 million of outstanding 8.1 % Bonds (due 15 March 2027) and $250 million of outstanding 8.375 % High Yield Notes (due 10 August 2015) as net investment hedges of part of the Group's investment in US Dollar or US Dollar related currencies, denominated subsidiaries and associates directly or indirectly owned by Basell AF S.C.A. The changes in the Euro value of the Bonds and Notes, to the extent that they are designated as a hedge, are recorded in Other reserves within Equity for an amount of €35 million. The cumulative translation difference (gain) recorded in shareholders' equity as at 31 December 2006 amounts to €29 million (2005: gain €6 million). Due to the overall tax loss situation in the Netherlands and the elimination of the temporary difference on cumulative currency exchange gains in the Netherlands (see note 33), no tax effect was taken into account as at 31 December 2006 (2005: positive tax effect of €2 million).

Directly upon the issuance on 10 August 2005 of the $615 million subordinated high yield bonds, the Group entered into a cross currency interest rate swap for a notional amount of $365 million. The fixed $-interest has been swapped into fixed €-interest and the notional $-amount has been swapped in a notional €-amount. The Group entered into the cross currency interest rate swap to have its financing costs linked to its cash flows. The cross currency interest rate swap is designated as a cash flow hedge with changes in fair value recognised in Other reserves within Equity.

Interest rates

The Group has outstanding interest rate swaps, maturing in October 2008, for a notional amount of €470 million changing the floating interest rate of the drawings under its senior secured credit facility agreement to fixed interest rates. The Group entered into these swaps in line with its strategy that the floating interest should not exceed 50 % of its total debt portfolio, including derivatives.

Stock option plans

The Group has outstanding total return swaps on shares in Royal Dutch Shell plc and BASF AG, which form a hedge against the upward risk of the obligations stemming from the stock option plans (note 21). In the total return swaps, the Group obtained the beneficial interest in the underlying shares without owning these shares. The total return swaps mature in 2008 and are settled semi-annually. The Group receives the dividends paid on the underlying shares. At maturity of the swap, the Group will pay or receive the difference between the price of the underlying shares at the settlement date and the price at the inception of the swap, adjusted for dividends paid by Royal Dutch Shell plc and BASF AG and for the payment of financing costs. The total return swaps are valued at fair value with any results being included, as results from derivatives, in the income statement.

The notional contracted amounts and the fair values of the Group's derivative financial instruments outstanding as at 31 December 2006 are the following:

€ MILLION	NOTIONAL AMOUNT	FAIR VALUE
Raw material short-term forward contracts	1	–
Foreign currency forward contracts	187	–
Cross currency interest rate swap	277	(15)
Interest rate swaps	470	11
Total return swap	**54**	**3**

The notional contracted amounts and the fair values of the Group's derivative financial instruments outstanding as at 31 December 2005 were the following:

€ MILLION	NOTIONAL AMOUNT	FAIR VALUE
Raw material short-term forward contracts	25	1
Foreign currency forward contracts	155	1
Cross currency interest rate swap	308	12
Interest rate swaps	470	3
Total return swap	**69**	**(2)**

Effective interest rates and re-pricing analysis

In respect of interest-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at 31 December 2006 and the periods in which they re-price.

€ MILLION	EFFECTIVE INTEREST RATE	TOTAL	6 MONTHS OR LESS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Cash and cash equivalents	3.50 %	670	670	–	–	–	–
Senior and Italian Facility Agreement	5.99 %	1,298	1,298	–	–	–	–
Effect of interest rate swaps	(0.74 %)	470	–	–	470	–	–
High Yield Notes (due 2015)	8.55 %	966	–	–	–	–	966
Effect of cross currency interest rate swap	(1.63 %)	277	–	–	–	–	277
Bonds (due 2027)	8.26 %	228	–	–	–	–	228
Receivable securitisation programmes	4.75 %	558	558	–	–	–	–
Other interest-bearing loans and borrowings	5.91 %	95	80	–	–	15	–

As at 31 December 2005 the table was as follows:

€ MILLION	EFFECTIVE INTEREST RATE	TOTAL	6 MONTHS OR LESS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	MORE THAN 5 YEARS
Cash and cash equivalents	2.96 %	590	590	–	–	–	–
Senior and Italian Facility Agreement	5.40 %	1,577	1,577	–	–	–	–
Effect of interest rate swaps	0.58 %	470	–	–	–	470	–
High Yield Notes (due 2015)	8.55 %	1,019	–	–	–	–	1,019
Effect of cross currency interest rate swap	(1.62 %)	297	–	–	–	–	297
Bonds (due 2027)	8.26 %	253	–	–	–	–	253
Receivable securitisation programmes	3.69 %	514	514	–	–	–	–
Other interest-bearing loans and borrowings	6.12 %	55	38	–	–	17	–

Fair values

Financial instruments in the consolidated balance sheet, other than derivative instruments, include:

- Available-for-sale financial assets
- Trade receivables
- Other receivables
- Cash and cash equivalents
- Interest-bearing loans and borrowings
- Trade payables
- Accrued liabilities

For most of the financial instruments the estimated fair values approximate their carrying amounts due to their short-term nature, the frequent re-pricing or the short period since inception. As at 31 December 2006, for the following financial instruments the fair value, based on market quotations, is different from their carrying value:

€ MILLION	CARRYING AMOUNT	FAIR VALUE
High Yield Notes, $615 million	466	478
High Yield Notes, €500 million	500	535
Bonds, $300 million	228	218
	1,194	**1,231**
Net higher fair value		**37**

As at 31 December 2005, the carrying amounts and fair values were the following:

€ MILLION	CARRYING AMOUNT	FAIR VALUE
High Yield Notes, $615 million	519	518
High Yield Notes, €500 million	500	508
Bonds, $300 million	253	234
	1,272	**1,260**
Net lower fair value		**12**

35. Commitments, litigation and other matters

Guarantees

On 31 December 2006, the Group had outstanding guarantees to commercial banks for a total of €29 million (2005: €24 million) for bank loans to associated companies which expire in 2011.

In the previous year the Group had outstanding guarantees for projects being undertaken by an associated company in the amount of €38 million. The guarantee expired as a result of the refinancing undertaken by that company.

As part of its technology licensing contracts, the relevant Group company gives an indemnification to its licensees against liability arising from possible claims of patent infringement in respect of the proprietary licensed technology.

In a number of technology licensing contracts, the relevant Group company provides bank guarantees for its financial obligations with respect to delivery of process design packages and technology performance warranties. At 31 December 2006 the outstanding amount was €4 million (2005: €8 million).

Several other guarantees have been provided to third parties, within the ordinary course of business, for an amount of €14 million.

No provision has been made in the balance sheet for the Group's obligations under these guarantees, as management believes that the fair value of these guarantees is negligible.

For the guarantees issued in respect of the outstanding loans and borrowings, reference is made to note 20. Pledges on the Group's assets related to financing arrangements are disclosed in notes 18 and 20.

Litigation and other matters

A number of Group companies are involved as claimants or defendants in various legal proceedings and other claims considered in the ordinary course of its businesses. In the judgement of management no losses, in excess of provisions made or covered by insurance programmes, which would be material in relation to the Group's financial position are likely to arise in respect of these matters, although their occurrence may have a significant effect on periodic results.

Lease commitments and IT service contract

The Group leases office facilities, railcars, vehicles, and other equipment under long-term operating leases. Some leases contain renewal provisions, purchase options and escalation clauses.

Additionally, the Group has entered into a long term agreement with an IT service provider that is cancellable by the Group with a 6-month notice period and against payment of a cancellation fee. This agreement is classified as an operational lease.

The aggregate future estimated payments under these commitments are:

YEAR	€ MILLION
2007	63
2008	46
2009	38
2010	25
2011	24
After 2011	132
Total	**328**

Long-term purchase obligations

In the ordinary course of business, the Group companies enter into long term purchase and supply contracts for raw materials, end products and energy with third parties, associated companies and joint ventures. These contracts are for varying duration and at market related terms. As the commitments vary with the requirements of the relevant Group company and the development of market prices, no value can be determined for the future amounts to be paid or received under these contracts.

Other commitments

At 31 December 2005/2006, the Group did not have significant commitments under capital expenditure projects.

36. Related-party transactions

Identity of related parties

The Group has a related party relationship with the Access Industries group (including BI S.à r.l. and Basell AFGP S.à r.l.), its associates and joint ventures, the Pensionskasse der BASF VVaG and funded post-retirement benefit schemes (see note 21) as well as key management of the Group.

Sales and purchases of goods

In the normal course of business the Group purchases from and sells products to its associates and joint ventures. All purchases and sales are transacted on an arm's length basis at market related terms.

€ MILLION	2006	2005 (20 APR - 31 DEC)
Products purchased	819	400
Products sold	489	79

Rendering and receiving of services

On some of the Group's manufacturing sites associates and joint ventures provide certain services, utilities, materials and facilities to the Group and on other sites the Group provides services to associates and joint ventures. These services are governed by contractual agreements between the parties at arm's length and on prevailing market conditions.

The Group entered into a management agreement with AI Petrochemicals LLC on 1 August 2005. In 2006 the annual management fee for ongoing services amounted to €5.0 million as EBITDA exceeded €800 million. In addition €1.0 million (2005: €0.8 million) for expense reimbursements were accrued. The management agreement entitles AI Petrochemicals LLC to receive an additional fee in connection with any new financing, acquisition or disposal transactions equal to a fixed percentage of the gross transaction value of such transaction. Due to the acquisition of the cracker in Münchsmünster in December 2006, an accrual of €0.6 million was made.

€ MILLION	2006	2005 (20 APR - 31 DEC)
Services provided by associates and joint ventures	51	24
Services provided to associates and joint ventures	3	1
Services provided by AI Petrochemicals LLC	7	19

Trade receivables / payables

As of 31 December, the Group had the following trade balances with related parties outstanding:

€ MILLION	31 DEC 2006	31 DEC 2005
AI Petrochemicals LLC	4	2
ASSOCIATES AND JOINT VENTURES		
Trade receivables	115	82
Trade payables	210	167

Financing arrangements

The interest income and expense for the period ended 31 December as well as financial receivables and payables with associates and joint ventures as at 31 December are as follows:

€ MILLION	2006	2005 (20 APR - 31 DEC)
ASSOCIATES AND JOINT VENTURES		
Interest income	3	1
Interest expense	–	–
Current interest-bearing loans and borrowings	9	8
Non-current interest-bearing loan provided	4	5

Key management compensation

Key management includes the Basell Holdings B.V.'s Management Board and the Group's Management Team, in total 12 members. In addition to their salaries, the relevant Group companies also provide non-cash benefits and contribute to post-employment employee benefits. Key management also participate in the Group's share-based payment schemes. New management incentive plans have been implemented in 2005. Share-based payment schemes and long term management incentive plans are described in note 21.

The expense for these plans in the period is included in 'Salaries and other short term benefits' and in 'Other long term benefits' in the table below. 2005 comparative amounts reflect the period following the acquisition of the Basell group, however, performance related compensation was based on the full year 2005.

€ MILLION	2006	2005 (20 APR - 31 DEC)
Salaries and other current benefits	17	10
Post-employment benefits	1	1
Other non-current benefits	2	1
Total	**20**	**12**

Appendix A

List of Companies as at 31 December 2006

This appendix includes all significant directly and indirectly owned subsidiaries, associates and joint ventures of the Company. With the exception of the Polish Joint Venture the Company has a 100 % interest in all significant European and North American subsidiaries listed below.

EUROPE	COMPANY NAME	PLACE OF REGISTRY
Belgium	Basell Polyolefins Company B.V.B.A.	Zaventem
	Basell Coordination Company B.V.B.A.	Zaventem
France	Basell Polyoléfines France S.A.S.	Nanterre
	Société du Craqueur de l'Aubette S.A.S.	Berre
	Basell Polyéthylène S.A.S.	Nanterre
	Basell Production France S.A.S.	Nanterre
	Basell Fos S.A.S.	Nanterre
Germany	Basell Bayreuth Chemie GmbH	Wesseling
	Basell Polyolefine GmbH	Wesseling
	Basell Germany Holdings GmbH	Wesseling
Italy	Basell Italy Holding S.r.l.	Milan
	Basell Brindisi S.r.l.	Milan
	Basell Poliolefine Italia S.r.l.	Milan
Netherlands	Basell Benelux B.V.	Rotterdam
	Basell Service Company B.V.	Hoofddorp
	Basell Finance Company B.V.	Hoofddorp
	Basell Holdings B.V.	Hoofddorp
	Basell Europe Holdings B.V.	Hoofddorp
	Basell International Holdings B.V.	Hoofddorp
	Basell Sale Marketing Company B.V.	Rotterdam
Poland	Basell Orlen Polyolefins Sp. z o.o. (50 %)	Plock
Spain	Basell Poliolefinas Ibérica S.L.	Barcelona
	Basell Ibérica Poliolefinas Holdings S.L.	Barcelona
UK	Basell Polyolefins UK Ltd.	Carrington
	Basell UK Ltd.	Carrington

NORTH AMERICA	COMPANY NAME	PLACE OF REGISTRY
Canada	Basell Canada Inc.	Corunna, Ontario
USA	Basell North America Inc.	Wilmington, Delaware
	Basell USA Inc.	Wilmington, Delaware
	Basell Capital Corporation	Wilmington, Delaware
	Basell Polyethylene Inc.	Wilmington, Delaware

REST OF WORLD	COMPANY NAME	PLACE OF REGISTRY	DIRECT INTEREST (%)	DIRECT AND INDIRECT INTEREST (%)*
Argentina	Petroken Petroquimica Ensenada S.A.	Buenos Aires	100.00	100.00
Australia	Basell Australia Pty. Ltd.	Melbourne, Victoria	100.00	100.00
	PolyPacific Pty. Ltd.	Dandenong, Victoria	50.00	50.00
Brazil	Basell Poliolefinas Ltda.	São Paolo	100.00	100.00
China	Basell Asia Pacific Ltd.	Hong Kong	100.00	100.00
Japan	SunAllomer Ltd.	Tokyo	50.00	50.00
Saudi Arabia	Saudi Polyolefins Company	Riyadh	25.00	25.00
	Saudi Ethylene & Polyethylene Company Ltd.	Riyadh	25.00	25.00
	Al-Waha Petrochemicals Ltd.	Riyadh	20.95	20.95
South Korea	PolyMirae Co. Ltd.	Seoul	35.18	42.59
	Basell Korea Ltd.	Seoul	100.00	100.00
Thailand	HMC Polymers Company Ltd.	Bangkok	28.56	28.56
	Basell Advanced Polyolefins (Thailand) Company Ltd.**	Bangkok	80.00	87.50

* Inclusive of interest through associates and joint ventures.
** The proportion of voting power held equals Basell's interest in the share capital.

Auditor's Report

To the Shareholders of
Basell AF S.C.A.
15-17, avenue Gaston Diderich
L-1420 Luxembourg

Report of the Reviseur d'Entreprises

We have audited the accompanying consolidated financial statements of Basell AF S.C.A., which comprise the consolidated balance sheet as at 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of managers' responsibility for the consolidated financial statements

The board of managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of managers, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Basell AF S.C.A as of 31 December 2006, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Luxembourg, 23 February 2007
KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Ph. Meyer

Injection-moulded cups produced using Basell's *Metocene* metallocene-based polypropylene

Basell at a Glance

KEY FACTS 2006

Annual turnover: €10.5 billion

6,850 employees

Manufacturing operations in 19 countries (including joint ventures)

Global leader in the production of polypropylene, with capacity of more than 7.6 million tonnes (including joint ventures)

7th largest producer of polyethylene in the world (#1 in Europe), with capacity of more than 2.5 million tonnes (including joint ventures)

Internet address: www.basell.com

Core Businesses

- **Technology Business:** Licensing, catalysts, technology services and new projects
- **Advanced Polyolefins Business:** Polypropylene-based compounds, resins from the *Catalloy* process, polybutene-1 and specialty polyethylene products
- **Polyolefins Business:** Polypropylene and polyethylene

PIctured left (both images): Blown film produced using Basell's *Hostalen* HDPE resin. (Note: the film lining the industrial drum is the blown film application)

Polyolefin Processes Licensed by Basell

- ***Spheripol*** – leading polypropylene technology for the production of homopolymer, random and heterophasic copolymers
- ***Spherizone*** – latest generation polypropylene technology based on new multi-zone reactor for the production of polypropylene and novel polyolefins
- ***Spherilene*** – advanced swing gas phase process for the production of LLDPE, MDPE and HDPE
- ***Hostalen*** – leading low-pressure slurry process for the production of bi-modal HDPE
- ***Lupotech* T** – leading high pressure tubular reactor process for the production of LDPE and EVA copolymers
- ***Metocene*** – technology for the production of specialty polypropylene products based on proprietary single-site catalyst systems

Basell's Catalyst Systems

- ***Avant* ZN** – Ziegler-Natta catalysts for polypropylene
- ***Avant* Z** – Ziegler catalysts for polyethylene
- ***Avant* C** – chromium catalysts for polyethylene
- ***Avant* M** – Metallocene catalysts for polypropylene

Basell's Main Product Lines

- ***Adflex*** – very soft, flexible polyolefins based on *Catalloy* process
- ***Adstif*** – high crystallinity polypropylene with very high stiffness
- ***Adsyl*** – low seal initiation temperature resins based on *Catalloy* process
- ***Clyrell*** – PP resins with outstanding transparency and impact strength
- ***Hifax*** – grades with outstanding impact performance for use in customer industrial, exterior automotive applications; grades for wire & cable and grades with flame retardant properties
- ***Histif*** – high molecular weight, high density polyethylene with high stiffness properties
- ***Hostacom*** – glass fibre-reinforced, mineral-filled grades and unfilled coloured grades for use in customer electrical appliances, automotive interiors and under-the-hood applications
- ***Hostalen*** – high density polyethylene for use in customer applications such as film, blow moulding, pipe, injection moulding, tapes, monofilaments and fibres
- ***Hostalen* PP** – grade based on high molecular weight polypropylene for use in customer pipe and sheet applications
- ***Lucalen*** – ethylene/acrylic acid/ acrylate copolymer for use in customer film and steel pipe coating applications

Food packaging produced using Basell polypropylene

- ***Luflexen*** – Metallocene-based linear low-density polyethylene for use in customer film applications
- ***Lupolen*** – low density polyethylene and medium density polyethylene; high density polyethylene for use in customer applications such as film, blow moulding, steel pipe coating, pipe and injection moulding
- ***Lupolex*** – linear low-density polyethylene for use in customer film applications
- ***Metocene*** – homopolymer, random and impact copolymer products based on single-site metallocene catalysts
- ***Moplen*** – homopolymer, random and impact copolymer products based on Ziegler-Natta catalysts
- **Polybutene-1** – resins for use in customer applications such as easy-open packaging, film modification, hot melt, polyelefin modification and pipe*
- ***Pro-fax*** – homopolymer, random and impact copolymer products based on Ziegler-Natta catalysts
- ***Pro-fax* Ultra** – high performance polypropylene resins
- ***Purell*** – specialty PP and PE products for use in customer medical and pharmaceutical applications
- ***Softell*** – exceptionally soft, flexible, soft touch resins based on *Catalloy* process

Adflex, *Adstif*, *Adsyl*, *Avant*, *Catalloy*, *Clyrell*, *Hifax*, *Histif*, *Hostacom*, *Hostalen*, *Hostalen* PP, *Lucalen*, *Luflexen*, *Lupolen*, *Lupolex*, *Lupotech* T, *Metocene*, *Moplen*, *Pro-fax*, *Pro-fax Ultra*, *Purell*, *Softell*, *Spherilene*, *Spheripol* and *Spherizone* are trademarks owned or used by Basell. *Adflex*, *Adstif*, *Adsyl*, *Clyrell*, *Hifax*, *Hostacom*, *Hostalen*, *Lucalen*, *Luflexen*, *Lupolen*, *Lupotech*, *Moplen* and *Pro-fax* are registered in the U.S. Patent and Trademark Office.

Before using a Basell product, customers and other users should make their own independent determination that the product is suitable for the intended use. They should also ensure that they can use the Basell product safely and legally. (Material Safety Data Sheets are available from Basell at www.basell.com). This document does not constitute a warranty, express or implied, including a warranty of merchantability or fitness for a particular purpose. No one is authorised to make such warranties or assume any liabilities on behalf of Basell except in writing signed by an authorised Basell employee. Unless otherwise agreed in writing, the exclusive remedy for all claims is replacement of the product or refund of the purchase price at Basell's opinion, and in no event shall Basell be liable for special, consequential, punitive, or exemplary damages.

* Basell does not sell polybutene-1 for use in pipe applications intended for use in North America, and requires its customers not to sell products made from PB-1 into North America pipe applications.

You can find out more about Basell by visiting our website at: www.basell.com

This annual report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may include statements concerning our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions, business trends and other information that is not historical information. When used in this commentary, the words “estimates,” “expects,” “anticipates,” “projects,” “plans,” “intends,” “believes,” “forecasts,” or future or conditional verbs, such as “will,” “should,” “could” or “may,” and variations of such words or similar expressions are intended to identify forward-looking statements. All forward-looking statements, including, without limitation, management’s examination of historical operating trends and data are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs and projections will be achieved. There are a number of risks and uncertainties that could cause our actual results to differ materially from those expressed in or implied by forward-looking statements contained in this document. Such risks, uncertainties and other important factors include, among others: our ability to service our substantial leverage; limitations on flexibility in operating our business contained in our loan agreements; cyclical demand for our products; movements of oil prices affecting raw material costs causing volatility in the results and changes in the requirement for working capital; difficulties in securing the raw materials; increases in interest rates as a result of our variable rate indebtedness; fluctuations in currency exchange rates; high competition in the markets in which we operate; pricing pressure from our customers; uncertainties caused by our international operations, including political, economic and social conditions in the geographic markets where we operate; our ability to develop new products and process technologies; adverse changes to environmental, health and safety regulations; operating hazards in our production facilities, including environmental and physical risks; inability to achieve expected cost savings; our ability to realise the full value of our intangible assets; our ability to attract and retain skilled employees, particularly research scientists, technical sales professionals and engineers; our ability to protect our intellectual property rights; and the possibility that our owners’ interests will conflict with ours. There may be other factors that may cause our actual results to differ materially from the forward-looking statements. Forward-looking statements speak only as of the date of this annual report. Except as it may be required by any applicable law or regulation, we disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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