

“Cognis achieved significant
organic growth in 2000.

Our raw material strategy
has borne fruit. And we have
implemented significant
structural improvements.”

Joachim Söhngen
Executive Vice President
Finance



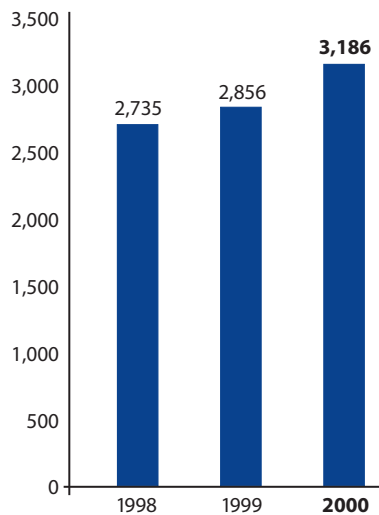
Management Report

Management report

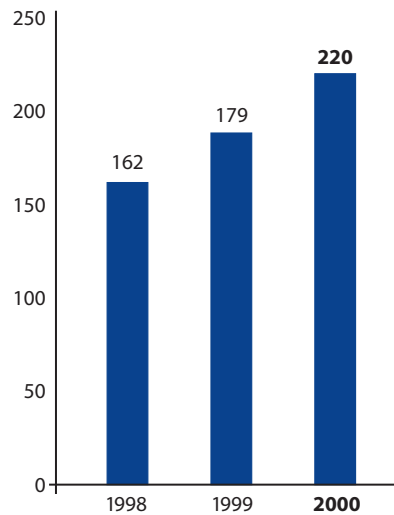
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Net total sales (€ million)



EBIT (€ million)



Financial highlights: Cognis Group

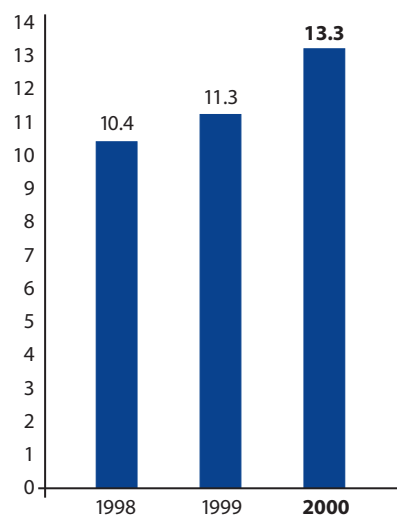
The positive sales growth, started in 1999, continued at a stronger rate in 2000. Not only the revenues generated in Oleochemicals but also the Organic Specialties and Care Chemicals sectors exceeded previous-year levels. In all, Cognis recorded external sales of EUR 2,869 million – an increase of 10.1 percent. Of this figure, 6.1 percent was attributable to continuing operations and 4 percent to acquisitions, divestments and foreign exchange factors. Cognis also transacted sales with Henkel companies valued at EUR 317 million (previous year: EUR 251 million), so that the net total sales for the Cognis Group amounted to EUR 3,186 million for the year under review compared with EUR 2,856 million in 1999.

With an increase of 22.9 percent compared with the previous year, EBIT grew disproportionately compared with sales. The return on sales improved from 6.3 percent to 6.9 percent, and the return on investment rose from 11.3 percent to 13.3 percent. The biggest contributor to profit growth was Oleochemical Basestocks, which posted a record EBIT figure of EUR 129 million, more than doubling earnings of the previous year.

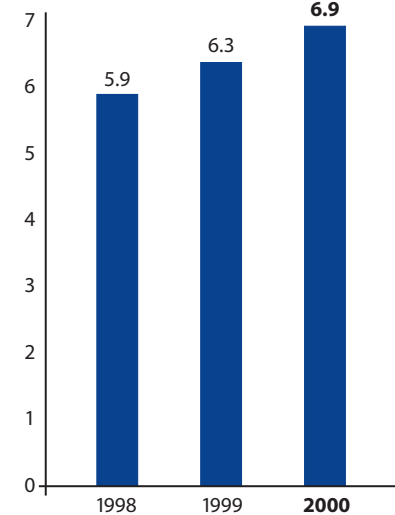
Worthy of particular mention in regional terms are the sales increases recorded in Germany (+13.8 percent) – aided in the past by the export-boosting high dollar – and in Asia (+25.5 percent) where the strong economic upswing of the previous year continued. Business in North and South America improved by 10.3 percent, mainly due to foreign exchange factors, while the growth rate in Europe without Germany stood at 4.6 percent.

The acquisition of Hispano Química (Spain), completed in March 2000, has effectively strengthened our activities in Organic Specialties, providing an additional sales volume for the year of EUR 25 million. The sale of our factory in Leeds (Great Britain) to the local management enabled us to further streamline our production network.

Return on investment (%)



Return on sales (%)



Figures in EUR million	1999	2000
Net total sales	2,856	3,186
EBIT	179	220
Return on sales	6.3%	6.9%
Financial expense	-53	-62
Earnings before tax	126	158
Taxes	-35	-51
Net earnings	91	107
Net return on sales	3.2%	3.4%
Equity ratio	31.8%	32.8%

The financial expense figure of EUR 62 million includes EUR 15 million for interest charges in respect of pension provisions. Earnings before tax amounted to EUR 158 million (previous year: EUR 126 million), and net earnings after tax for the year were EUR 107 million (previous year: EUR 91 million). The effective tax rate increased from 27.8 percent in 1999 to 32.8 percent, the reason being the inclusion of the tax-free divestment of participating interests in the paper auxiliaries business.

Earnings position

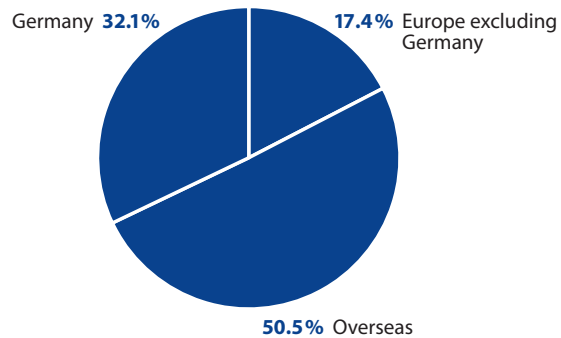
At EUR 220 million compared with EUR 179 million in 1999, EBIT underwent an even more rapid growth than sales in 2000. Although higher charges for petrochemical raw materials had a negative effect, favorable pricing trends for coconut oil partially offset this hike, thereby confirming the validity of the strategic direction of Cognis toward renewable raw materials.

Employees

At the end of fiscal 2000, the number of employees at the Cognis Group worldwide totaled 9,141 (previous year: 8,996). The increase over 1999 is predominantly due to the acquisition of Hispano Química (115 employees) in Spain.

Capital expenditures

The volume of new investment projects in fiscal 2000 amounted to EUR 109 million, representing a significant increase over the previous year. The rise results from an investment that was postponed from 1999 and implemented in the year 2000.

New investment projects by region

The focus in the year under review was on increasing capacity for specialty products in France. The products of Nutrition & Health and Coatings & Inks produced in France are very important for sales growth in Europe. Other investments were implemented with a view to optimizing production facilities and processes, and expanding existing capacities in order to eliminate production bottlenecks. The closure of some smaller production sites required capital expenditure for manufacturing relocation.

Quality and environmental management

As one of the first companies anywhere, and as the very first chemicals company, Cognis achieved worldwide certification last year in accordance with the internationally recognized quality and environmental standards ISO 9001 and ISO 14001.

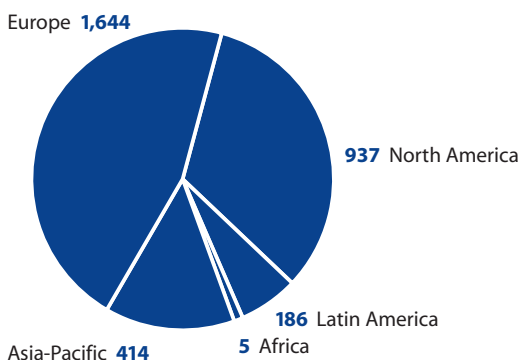
Research and technology

In 2000, Cognis also gained independence in the field of research and technology – with activities focused on two major research centers in Düsseldorf (Germany) and Cincinnati (USA). A knowledge management system was introduced in order to pool existing know-how and make it more readily available to our companies and organizations around the world.

Largest (> EUR 1.0 million) approved projects	In EUR million
Sterol production, France	10.9
Photomer plant, France	5.0
Production relocation, USA	5.0
Esterification expansion, Germany	2.8
Construction of new infrastructure buildings, Turkey	2.5
Production rationalization, Hispano Química, Spain	1.5
Tank farm expansion, Germany	1.3
Esterification expansion, France	1.1
Hydrogenation capacity expansion, Germany	1.1
Replacement flaking roll, Germany	1.0

R&D and Technical Service Costs in EUR million	1998	1999	2000
Research and development	56	61	67
Technical Service	30	38	45
Total	86	99	112

Cognis: Net total sales by region
(€ million)



Cognis: Net total sales by region in EUR million		
	1999	2000
Total	2,856	3,186
Europe	1,499	1,644
North America	851	937
Latin America	167	186
Africa	9	5
Asia-Pacific	330	414

Successes emanating from Cognis innovation in fiscal 2000:

- Major advancements in the design of biotechnological processes for the manufacture of monomer modules as precursors to high-quality polymers
- Major European truck manufacturers approve lubricant oils designed specifically for the automotive industry and based on renewable raw materials
- Successful market launch of special dermatologically compatible hydroxy acids for cosmetic products to promote skin regeneration
- Initial customer approvals for resins based on renewable raw materials as components for fiber-reinforced composites
- New methods for online analysis and online production control

Oleochemicals

The positive sales trend of the second half of 1999 continued in the Oleochemicals business sector throughout fiscal 2000.

The main contributors to this encouraging performance were our oleochemical base-stocks, fatty acids and fatty alcohols.

With the main success factors:

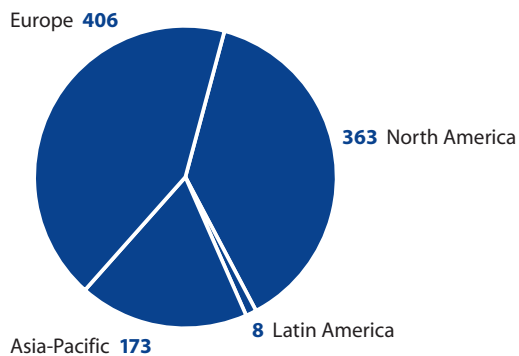
- high volume with corresponding plant capacity utilization,
 - high revenues, and
 - low raw material costs
- all coinciding, this business sector posted the highest profit figure it has ever achieved.

EBIT growth at Oleochemicals exceeded sales growth. EBIT and return on sales and investment were much higher than in the previous year. With a return on sales of 13.6 percent and a return on investment of 18.7 percent, 2000 was the most successful year in the history of the Oleochemicals sector.

Business performance in Europe largely reflected that in Germany. Oleochemical Base-stocks profited from high demand and easing raw material prices.

Sales increases continued in North America. Having produced 300,000 metric tons, the fatty acids business achieved a new sales

Oleochemicals: Net total sales by region (€ million)



Oleochemicals: Net total sales by region in EUR million	1999	2000
Total	827	950
Europe	350	406
North America	326	363
Latin America	8	8
Africa	0	0
Asia-Pacific	143	173

record in fiscal 2000, with sales of a new tallow fatty acid giving results an additional boost in the fourth quarter. Demand for fatty alcohols was similar to that in Europe; capacity bottlenecks of the synthetic product manufacturers and a stable price level at Cognis resulted in sales and earnings growth versus the previous year.

The Asian business performed very well. Overall sales and earnings in 2000 reached record levels. The year was characterized by high volumes, high revenues, low raw material costs, cost savings and the full utilization of our production capacities. In Malaysia and China in particular, business progressed very well. The company in China recorded a substantial operating profit for the first time.

A distinct downturn in prices adversely affected the plant oil markets during the period under review. Abundant supply met with rather poor demand levels. There is currently still no sign of a turnaround. We are utilizing the significant downturn in prices to develop our inventory positions.

In the fourth quarter, both Nutrition & Health and Food Technology were unable to maintain their previous profit performance. Write-downs and a general downturn in business led to

Oleochemicals: Net total sales by product group in EUR million	1998	1999	2000
Oleochemical Basestocks	572	550	639
Nutrition & Health	117	132	141
Food Technology	137	109	108
Other	19	36	62
Total Oleochemicals	845	827	950
EBIT	71.1	53.3	129.3
Return on net sales	8.4%	6.4%	13.6%

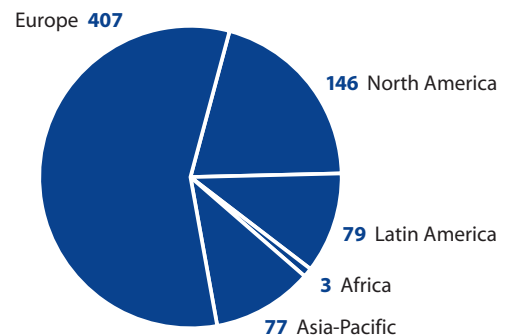
reduced earnings, with the return on investment of these business units declining.

Our European business in the Nutrition & Health sector grew in all segments, with sales overall increasing by 27 percent versus the previous year. As a result of certain unfavorable influences, Food Technology profits did not meet expectations.

The Nutrition & Health unit experienced a significant downturn in business in the USA. The so-called VMHS markets (vitamins, minerals, herbals and supplements) fell 10 percent versus the previous year, with the decline for vitamin E (synthetic and natural) amounting to 20 percent. In the fourth quarter the market weakness led to unsatisfactory profits, and the 2000 target was not met in this segment.

Care Chemicals: Net total sales by region in EUR million		
	1999	2000
Total	647	712
Europe	363	407
North America	129	146
Latin America	77	79
Africa	5	3
Asia-Pacific	73	77

Care Chemicals: Net total sales by region
(€ million)



Care Chemicals: Net total sales by product group in EUR million			
	1998	1999	2000
Care Surfactants	414	438	474
Care Specialties	144	188	220
Aroma Chemicals	19	21	18
Total Care Chemicals	577	647	712
EBIT	39	35	36
Return on net sales	6.8%	5.4%	5.1%

Care Chemicals

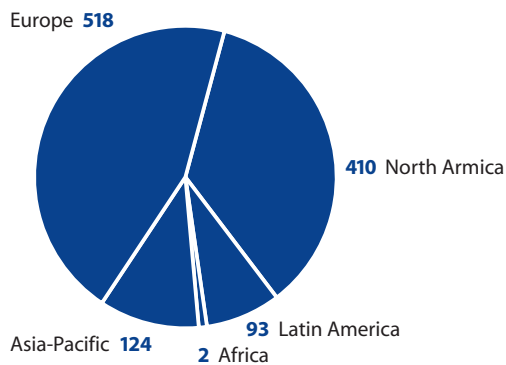
The Care Chemicals sector experienced a steady increase in sales during 2000. At EUR 712 million, business revenue rose by 10 percent over the previous year. Of the various regions, Europe was the main engine of growth.

The acquisition of Laboratoires Sérobiologiques in 1999 contributed both to sales growth and to the earnings improvement in 2000.

The Surfactants business was adversely affected by a steady rise in raw material costs. In a highly competitive environment, an adjustment in selling prices could only be implemented after some delay. A concurrent strategy of full capacity utilization was adopted, resulting in lower production costs. Europe provided a considerable boost in the Skin Care business. Since the beginning of the year, our Skin Care unit has been managed for the first time by one manager responsible for the whole European region. The positive performance in Asia was mainly achieved in the smaller countries. A promising sales team has been assembled in China. In order to support growth in this sector, our Marketing and Applications Technology units further strengthened their global network in 2000.

At Care Surfactants, the year was characterized throughout by good levels of demand in all markets. Record sales were posted in Europe. Cognis was able to successfully expand its worldwide market leadership in pearl-shine concentrates through the launch of a new product generation during the second half of 2000.

Organic Specialties: Net total sales by region (€ million)



Organic Specialties: Net total sales by region in EUR million	1999	2000
Total	1,078	1,147
Europe	521	518
North America	378	410
Latin America	76	93
Africa	4	2
Asia-Pacific	99	124

Organic Specialties

The external sales figure reported by the Organic Specialties sector in 2000 was increased versus the prior year. The 10.9 percent increase for the year as a whole, compared with 1999, is essentially due to positive foreign exchange influences and acquisitions (8.9 percent) accompanied by a moderate organic growth rate (2 percent). All the regions contributed to the expansion in business. The main driving forces for growth were Textile Technology and our operations in the agricultural and oil production sectors. In the previous year, the Silicates business reported to this sector (Europe only) with sales of EUR 44 million. For 2000, Silicates are included in "Other Activities" with a sales figure of EUR 44 million.

While sales growth slowed in the final quarter of 2000, the profit situation worsened. In addition to adverse market influences prevailing in North America, the main cause for this very negative development were special write-offs and inventory write-downs. In Europe, the region with the strongest sales, business further expanded by 8.6 percent – in spite of the divestment of the paper auxiliaries business (in 1999) – with half the growth coming from the acquisition of Hispano Química (Spain).

Organic Specialties: Net total sales by product group in EUR million	1998	1999	2000
Coatings & Inks	218	249	291
Plastics Technology	191	193	179
Textile Technology	241	237	274
Synlubes, Agrosolutions, Oilfield Chemicals	228	238	268
Other	149	161	135
Total Organic Specialties	1,027	1,078	1,147
EBIT	54	75	41
Return on sales	5.3%	7.0%	3.6%

Due to general economic factors, the rate of sales increase slowed during the fourth quarter. However, with the exception of Synlubes and Specialties, all businesses closed the year with significantly better overall operating results. Increased raw material costs from the petrochemicals sector, charges relating to personnel reduction in Turkey, and residual costs arising from the sale of the paper auxiliaries business and from the closure of a plasticizers plant in France were offset by increased sales for the year as a whole so that the expected EBIT level in Europe was achieved.

In the last quarter of 2000, the weakness of the US market in the areas served by the Textile Technology, Plastics Technology and Coatings & Inks units intensified due to seasonal influences. At the same time, the market for Synlubes collapsed as manufacturers of heavy-duty trucks almost completely suspended production during the fourth quarter. Measures introduced to combat these business developments had not yet stabilized results as 2000 came to a close.

Overall, sales in Asia were above the level of the previous year, with a significant increase in profits being achieved even after foreign currency adjustments. This good performance is attributable in particular to our Coatings & Inks, Plastics Technology and Textile Technology businesses. In the Textile Technology segment, appreciable improvements occurred, particularly in the Chinese market. Aside from

a systematic expansion of our marketing and technical service activities in the countries of Asia, the relatively low cost of some exports from Europe to the Asian region trading in dollars also contributed to this success.

In our Latin American business, Textile Technology results benefited considerably from the migration of our customer industries, particularly from the USA to Mexico.

All in all, 2000 was unsatisfactory for Organic Specialties. The business sector has introduced measures that are expected to result in appreciable improvements in profits for 2001.