

Consolidated Financial Statements

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Cognis Consolidated Balance Sheet

Assets	Notes	December 31, 2001		December 31, 2002	
		€ million	%	€ million	%
Intangible assets	(1)	590	18.6	433	14.7
Property, plant and equipment	(2)	1,059	33.4	924	31.4
Investments in affiliates and other investments	(3)	3	0.1	1	0.0
Fixed assets		1,652	52.1	1,358	46.1
Deferred tax assets	(19)	114	3.6	199	6.8
Inventories	(4)	541	17.1	484	16.4
Trade accounts receivable	(5)	521	16.5	468	15.9
Other receivables and other current assets	(6)	143	4.5	140	4.7
Cash and cash equivalents	(7)	197	6.2	299	10.1
Current assets		1,402	44.3	1,391	47.1
Total assets		3,168	100.0	2,948	100.0

Shareholder's Equity and Liabilities	Notes	December 31, 2001		December 31, 2002	
		€ million	%	€ million	%
Equity	(8)	131	4.1	-5	-0.2
Minority interests		60	1.9	60	2.0
Equity and minority interests		191	6.0	55	1.8
Provisions for pensions and similar obligations	(9)	553	17.5	519	17.6
Other provisions	(10)	214	6.8	197	6.7
Provisions		767	24.3	716	24.3
Deferred tax liabilities	(19)	48	1.5	43	1.5
Borrowings	(11)	1,831	57.8	1,810	61.4
Trade accounts payable	(12)	242	7.6	209	7.1
Other liabilities	(13)	89	2.8	115	3.9
Liabilities		2,162	68.2	2,134	72.4
Total equity and liabilities		3,168	100.0	2,948	100.0

Cognis Consolidated Income Statement

	Notes	2001		2002	
		€ million	%	€ million	%
Sales	(25)	3,133	100.0	3,126	100.0
Cost of sales		-2,247	-71.7	-2,287	-73.2
Gross profit		886	28.3	839	26.8
Marketing, selling and distribution costs		-462	-14.8	-459	-14.7
Research and development costs		-73	-2.3	-76	-2.4
Administrative expenses		-145	-4.6	-127	-4.1
Other operating income	(14)	34	1.1	35	1.1
Other operating expenses	(15)	-24	-0.8	-20	-0.6
		216	6.9	192	6.1
Amortization of goodwill	(1)	-6	-0.2	-9	-0.3
Restructuring costs	(16)	-36	-1.1	-41	-1.3
Operating profit (EBIT)	(17)	174	5.6	142	4.5
Net financing costs	(18)	-54	-1.8	-183	-5.8
Profit before tax		120	3.8	-41	-1.3
Income tax expense/recovery	(19)	-58	-1.9	17	0.5
Profit / loss before minority interests and set-off against purchase price		62	1.9	-24	-0.8
Minority interests	(20)	-12	-0.3	-17	-0.5
Net loss (2001: Net profit before set-off against purchase price)		50	1.6	-41	-1.3
Set-off against purchase price (net profit from January 1 to November 30, 2001)		-75	-2.4	0	0.0
Net loss (2001: December 2001 only)		-25	-0.8	-41	-1.3

Cognis Consolidated Statement of Changes in Shareholder's Equity

€ million	Notes	Capital reserve*	Net loss	IAS 39 reserve	Currency translation differences	Consolidated equity
At January 1, 2001	(8)					672
Net earnings Jan. 1 – Nov. 30, 2001						75
Translation differences						18
Capital increases						85
Set-off of purchase price						-850
At December 1, 2001		0	0	0	0	0
Net loss Dec. 1 – Dec. 31, 2001			-25			-25
Translation differences					2	2
Capital increases		150				150
Fair value of interest rate derivatives				4		4
At January 1, 2002		150	-25	4	2	131
Net loss 2002			-41			-41
Translation differences					-71	-71
Fair value of interest rate derivatives	(24)					
– Fair value losses				-47		-47
– Deferred tax benefit on fair value losses				12		12
– Transfers from IAS 39 reserve to Income Statement				11		11
At December 31, 2002		150	-66	-20	-69	-5

*The share capital of Cognis GmbH is €25 thousand. In addition, €150 million was paid into the capital reserve.

Cognis Consolidated Cash Flow Statement

€ million	2001	2002
Operating profit (EBIT)	174	142
Income taxes paid	-62	-34
Depreciation/write-ups of fixed assets (excluding financial assets)	143	220
Net gains from disposals of fixed assets (excluding financial assets)	-4	-1
Cash flow	251	327
Change in inventories	4	18
Change in receivables and other current assets	-62	37
Change in liabilities and short-term provisions	41	-15
Cash flows from operating activities	234	367
Capital expenditure on intangible assets	-1	-1
Capital expenditure on property, plant and equipment	-116	-97
Capital expenditure on financial assets	-2	0
Acquisitions	-14	11
Proceeds from disposals of fixed assets	10	2
Proceeds from disposals of investments	29	0
Cash flows from investing activities	-94	-85
Dividends paid to minority shareholders	-9	-8
Change in pension provisions (excluding interest element)	0	-44
Repayment of borrowings	-62	-28
Interest and dividends received	21	11
Interest paid and other financial charges	-68	-110
Proceeds from capital contributions from Henkel KGaA	22	0
Cash flows from financing activities	-96	-179
Net cash flow from purchase of Cognis Group	135	0
Increase in cash and cash equivalents	179	103
Effect of exchange rate changes on cash and cash equivalents	0	-1
Change in cash and cash equivalents	179	102
Cash and cash equivalents at 1 January, 2002	18	197
Cash and cash equivalents at 31 December, 2002	197	299

Notes to the Consolidated Financial Statements

Preliminary Remark

These condensed financial statements have been derived from the consolidated annual financial statements of Cognis GmbH as at December 31, 2002, which were prepared in accordance with International Financial Reporting Standards (IFRS).

General Disclosures

The consolidated annual financial statements of the Cognis Group have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention with the exception of certain financial instruments, which are carried at fair value as disclosed below.

In 2001, Cognis GmbH, Düsseldorf, Germany, acting via its wholly-owned subsidiary Cognis Deutschland GmbH & Co. KG, Düsseldorf, Germany and the latter's own subsidiaries, acquired all of the equity of the constituent entities of the Cognis Group including their interests in joint ventures. The assets and liabilities of the acquired consolidated entities were recognized at their fair values in accordance with IAS 22, effective November 30, 2001. The difference between the net assets and the acquisition cost was recognized as goodwill. In 2002, the carrying values of certain assets and liabilities (and thus also goodwill) were revised in accordance with IAS 22.71 as a result of reassessments of the fair values of acquired assets and liabilities based on additional evidence subsequently obtained (cf. Notes 1, 2 and 9/10). These adjustments related to fixed assets, pension provisions and deferred taxes.

As a result of the accounting for the purchase, the comparability of the Group's 2001 and 2002 results is limited. This is due particularly to increased depreciation resulting from the revaluation of assets, amortization of goodwill and financing costs of the new borrowing structure. These effects were reflected for the month of December in the 2001 accounts; in 2002, however, these effects are reflected for the full year.

Scope of consolidation

In total, 52 (2001: 55) entities, including subconsolidated entities, have been included in the 2002 consolidated financial statements.

	Number of consolidated entities as at December 31, 2001	Number of consolidated entities as at December 31, 2002
North West Europe	19	18
Southern Europe, Africa	14	12
Asia-Pacific	15	15
North America	3	3
Latin America	4	4
Total	55	52

The scope of consolidation has changed as follows. The equity share in Anticor Chimie S.A., France, amounting to 50.1%, was divested in the 2002 financial year. Lactovit Nahrungsmittel GmbH, Düsseldorf, Germany was merged with Grünau Illertissen GmbH, Illertissen, Germany in 2002. Likewise in 2002, Cognis Italy Holding S.p.A., Italy was merged with Cognis S.p.A., Italy, and Biosoph Laboratories S.A.S., France merged with Cognis France S.A., France. Biosoph Laboratories S.A.S. was recognized as of December 31, 2001 under "Other participations". Also in 2002, the shareholding in PT Cognis Indonesia, Indonesia, was increased by 17.85% to 84.7%.

A list of the principal subsidiary companies is provided in Note 30.

Accounting policies

Basis of consolidation

Entities which Cognis GmbH either directly or indirectly controls by holding more than half of the voting rights or otherwise are included in the consolidated Cognis Group financial statements, with the exception of entities that are individually and collectively highly immaterial. These exceptions are classified as investments in affiliated companies. Entities are consolidated from the date the Group assumes effective control and are removed from the consolidation when control ceases. Potential voting rights that are exercisable or convertible as at the balance sheet date are taken into consideration in the assessment of whether control can be exercised. Acquisitions of controlled entities are accounted for using the purchase method, according to which the acquisition purchase price is allocated at the acquisition date to the fair value of acquired assets and liabilities and goodwill.

All intercompany transactions, balances, unrealized gains and unrealized losses on transactions between Group companies are eliminated.

Foreign currency translation

Transactions in foreign currencies are translated to euro at the foreign exchange rate prevailing 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 prevailing at that date. With the exception of unrealized gains and losses on intra-group balances (which are recorded directly in equity), foreign exchange differences arising on translation are recognized in the income statement.

The Group's foreign operations are financially, economically and organizationally independent of Cognis GmbH. As a result, the assets and liabilities, including goodwill and fair value adjustments arising on consolidation, of the Group's foreign operations are translated from these operations' measurement currencies (normally the local currencies) to euro at foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of these foreign operations are translated to euro at rates approximating the foreign exchange rates in effect at the dates of the transactions. Foreign exchange differences arising on translation are recognized directly in equity. If a consolidated foreign entity is disposed, the respective accumulated translation differences are taken to income.

The following exchange rates have been used for currency translation purposes:

Unit of currency	ISO code	Average rate in €		Closing rate in €	
		2001	2002	2001	2002
1 British pound	GBP	1.61	1.59	1.6420	1.5373
100 Japanese yen	JPY	0.92	0.85	0.8628	0.8039
1 US dollar	USD	1.12	1.06	1.1334	0.9536
1 Malaysian ringgit	MYR	0.29	0.28	0.2971	0.2512

Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is stated at cost less accumulated amortization and impairment losses. Amortization is calculated on a straight-line basis over the goodwill's useful life but not exceeding 15 years. The useful life of goodwill is determined by reference to contractual commitments, the period over which integration synergies can be realized and the strategic benefits of the acquisition.

Any gain or loss arising from the disposal of a subsidiary takes the remaining carrying value of associated goodwill into account.

Other intangible assets are valued at cost less amortization and impairment losses. The acquisition cost of an intangible asset includes the purchase price plus all directly attributable costs incurred to prepare the asset for its intended use. Discounts and rebates are deducted in calculating the acquisition cost.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if, among other criteria, the product or process is technically and commercially feasible and the costs can be reliably measured. In 2002, as in the previous year, these criteria were not fulfilled with the result that all development costs were expensed as incurred.

Any other intangible assets are amortized on a straight-line basis over their useful life. The useful life generally lies between four and eight years unless a longer period is specifically justified, for example, by the lifetime of a patent. The amortization of intangible assets (apart from goodwill) is charged to the functional units that use them.

Property, plant and equipment

Property, plant and equipment are valued at cost less depreciation and impairment losses.

The cost of property, plant and equipment includes the purchase price and all directly attributable costs incurred in order to prepare the asset for its intended use. Rebates, allowances and discounts are deducted from the purchase price. The cost of assets manufactured includes all costs directly attributable to the manufacturing process and an appropriate proportion of production overheads and depreciation.

Interest charges on borrowings and repair and maintenance costs are not included in the cost of assets manufactured. Subsequent expenditure is capitalized only to the extent the assets' future economic benefits are increased beyond the originally assessed standard of performance.

Property (except land), plant and equipment are depreciated on a straight-line basis over their anticipated useful lives. The anticipated useful lives are as follows:

Useful lives	Years
Residential buildings	50
Office buildings	33-40
Research, factory, workshop, storage and staff buildings	25-33
Production facilities	20-25
Machinery and distribution systems	7-10
Office equipment	10
Vehicles	5
Factory and research equipment	5

The cost and accumulated depreciation of fully depreciated property, plant and equipment are included in the balance sheet until such assets are disposed or no longer used. Gains and losses arising from asset disposals, representing the difference between the disposal proceeds and remaining book value, are recognized in the income statement.

Impairment losses

Intangible assets including goodwill, and property, plant and equipment are reviewed at each balance sheet date for indications that assets may be impaired. If any such indications exist, the asset's carrying value is compared with its recoverable amount, defined as the greater of the asset's net selling price and its value in use (the present value of estimated future cash flows generated by its use and eventual disposal). The asset is then written-down to the recoverable amount. For the impairment test, the assets are aggregated at the lowest level at which separate cash flows can be calculated (smallest cash-generating unit).

Impairment loss reversals are recognized as soon as the reasons for the recognized impairment loss no longer exist. The impairment loss, however, is reversed only to the extent that the carrying value of the asset does not exceed the carrying value had no impairment loss been recognized.

Leases

Leases in which substantially all the risks and rewards of ownership are assumed by the Group are classified as finance leases. In this case, at the inception of the lease, the leased item is recorded as an asset at the lower of the present value of the minimum lease payments and its fair value. A finance lease liability is recognized in the same amount.

The leased asset is then amortized on a straight-line basis over its anticipated useful life. However, if title over the asset is not expected to pass to the Group upon expiry of the lease, the asset is amortized over the shorter of the useful life of the asset and the lease term.

Investments and other financial assets

The Cognis Group intends to hold its investments and other financial assets for an indefinite period of time; accordingly, they have been classified as available-for-sale investments per IAS 39. If reliably ascertainable, these financial assets would be recognized at their fair value (if available, their quoted market value) and changes in their fair value recognized in income. However, since their fair value could not be reliably ascertained, these assets are recorded at cost, including transaction costs, less impairment losses (as described below).

Management determines the appropriate classification of its investments at the time of purchase and re-evaluates such designation on a regular basis. At the time of acquisition and as required by IAS 39, the Group distinguishes between financial assets that are trading, held-to-maturity, available-for-sale and loans originated by the Group. During 2002, Cognis held no investments classified as held-to-maturity or loans originated by the Group. Financial assets classified as trading, comprised of forward exchange contracts, are included in other current assets.

Investments and other financial assets are reviewed at each balance sheet date for indications that assets may be impaired. If any such indications exist, the asset's carrying value is compared and, if necessary, written-down to its estimated recoverable amount, defined as the present value of expected future cash flows.

Impairment loss reversals are recognized as soon as the reasons for the recognized impairment loss no longer exist. The impairment loss, however, is reversed only to the extent that the carrying value of the asset does not exceed the carrying value had no impairment loss been recognized.

Inventories

Inventories are stated at the lower of purchase or manufacturing cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Cost is determined by using the first-in, first-out (FIFO) and weighted average cost methods. Manufacturing cost includes direct production costs including raw materials and related production overheads (based on normal capacity utilization), but excludes borrowing costs.

Derivative financial instruments

The Group adopted IAS 39 – Financial Instruments: Recognition and Measurement – on January 1, 2002. As a result, 2002 represents the first full year in which the consolidated financial statements are in compliance with this accounting standard. The adoption of IAS 39 had significant implications for the presentation, measurement and disclosure of financial assets and financial liabilities, including financial instruments such as derivatives, and of Cognis' interest rate and foreign currency hedging activities. The adoption of IAS 39 affected primarily investments, other current assets, other liabilities, borrowings and equity reserves.

The Group uses derivative financial instruments such as forward exchange contracts and interest rate hedging instruments to hedge certain exposures.

These financial derivatives are stated at cost in the balance sheet and in subsequent periods they are recognized at their fair value as of the balance sheet date. The method by which changes in the fair value of derivatives are accounted for depends on the type of item hedged. The fair value of interest instruments is based on the present value of the estimated future cash flows, as confirmed with our counterparties (exclusively banks). Fair values of forward foreign exchange contracts are measured using forward exchange rates as of the balance sheet date.

Cognis' interest rate hedging instruments, namely swaps, caps and floors, qualify as cash flow hedges under IAS 39. As a result, changes in their fair value are taken to the IAS 39 reserve in equity. Amounts so deferred in equity are transferred to the income statement and classified as financial income or expense in the same periods during which the hedged item, in this case the variable interest expense on hedged borrowings, affects the income statement.

Forward exchange contracts are classified as financial assets and liabilities held for trading for the purposes of IAS 39. As a result, changes in their fair value are recognized immediately in income.

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are stated at their cost less impairment losses. Specific provisions are recorded against individual accounts receivable when there are objective indications that the amount receivable may not be fully collectible. Furthermore, allowances for doubtful accounts receivable are recorded based on Cognis' historical credit risk experience. Other receivables (except derivative financial instruments) are stated at their nominal value less impairment losses. The carrying values of current financial assets approximate their fair values.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank demand deposits and other highly liquid short-term investments. Cash and cash equivalents denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date.

Provisions for pensions and similar obligations

For defined benefit plans, pension costs are assessed using the projected unit credit method in accordance with IAS 19: The cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of the participating employees, taking into consideration the expected future development of salaries and benefits. Net pension obligations are calculated as the present value of employee benefits less the fair value of plan assets. Valuations of these obligations are carried out by independent qualified actuaries.

The Group's contributions to defined contribution pension plans are charged to the income statement in the period to which the contributions relate.

Some Group companies provide post-retirement healthcare benefits to their retirees. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans.

Other provisions

Other provisions are accrued where a legal or constructive obligation in respect of third parties currently exists as a result of a past event, where it is probable that this will lead to an outflow of resources and where a reliable estimate of the amount of the liability can be made. The amount recognized corresponds to the best estimate of the expenditure required to settle the obligation at the balance sheet date.

Provisions for onerous contracts are recognized where the expected benefits from the onerous contract are less than the unavoidable costs associated with fulfillment of the contract obligations.

Long-term provisions are recognized at their present value when the effect of the time value of money is material.

Contingent liabilities are disclosed unless the recognition criteria for provisions are satisfied or the possibility of an outflow of resources embodying economic benefits is remote.

Borrowings and other liabilities

Interest-bearing borrowings are recognized initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the term of the borrowings on an effective interest basis.

Finance lease obligations are initially recognized at the lesser of the fair value of the leased item and the present value of the minimum lease payments. Each lease payment is then allocated between repayment of the finance lease obligation and finance charges, so as to achieve a constant rate of interest on the finance balance outstanding.

Other liabilities are carried at amortized cost. Derivative financial instruments that represent liabilities are recorded at fair value as described in the section "Derivative financial instruments", p. 59. Liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date.

The carrying values of current liabilities approximate their fair values.

Deferred taxes

Deferred taxes are recognized using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are recorded at the tax rates expected to be in effect when the underlying temporary differences reverse. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Changes in deferred tax balances arising from temporary differences between the carrying value and tax bases of cash flow hedging instruments are taken to equity, specifically the IAS 39 reserve.

Deferred tax assets and liabilities are netted against each other provided there is a legally enforceable right to set-off current tax assets and liabilities and the balances relate to the same tax authority.

Recognition of revenues and costs

Revenue from the sale of products, merchandise and services is recognized once the item or service has been delivered or rendered, the risks and rewards of ownership have been transferred to the purchaser, and the consideration amount can be measured reliably. Sales rebates, discounts and amounts levied for third parties, particularly sales taxes, are deducted from sale revenues.

Interest income and expenses are recognized on a time proportion basis using the effective yield method. Dividend income is recognized once the right to receive payment is established.

Assumptions and estimates in the consolidated financial statements

In some cases, estimates and assumptions have been made in arriving at the recognition and measurement of items in the consolidated financial statements. These estimates relate mainly to valuation allowances against inventory, provisions for environmental and litigation risks, and the valuation of deferred tax assets.

Notes to the Consolidated Balance Sheet

(1) Intangible assets

The changes in intangible assets are as follows:

€ million	Patents/Licenses	Goodwill	Total
Cost			
At January 1, 2002	405	249	654
Changes in the Group/acquisitions	0	2	2
Additions	1	0	1
Disposals	-22	0	-22
Translation differences	0	-17	-17
Other movements	-4	-82	-86
At December 31, 2002	380	152	532
Accumulated amortization			
At January 1, 2002	30	34	64
Amortization 2002	50	9	59
Disposals	-22	0	-22
Translation differences	0	-2	-2
At December 31, 2002	58	41	99
Book values			
At December 31, 2002	322	111	433
Book values			
At December 31, 2001	375	215	590

Other movements relate to a subsequent purchase price adjustment of € 47 million and to changes in the carrying value of assets and liabilities amounting to € 39 million resulting from reassessments of fair value per IAS 22.71.

In the year under review and in the previous year there were no internally generated intangible assets that satisfied the capitalization criteria per IAS 38.

In 2002 there were no impairment losses (2001: € 3 million) or reversals of impairment losses relating to intangible assets.

(2) Property, plant and equipment

The changes in property, plant and equipment are as follows:

€ million	Land, land rights and buildings	thereof finance leases	Technical facilities, plant and machinery	thereof finance leases	Other factory and office equipment	Prepayments and assets under construction	Total
Cost							
At January 1, 2002	617	22	1,944	22	195	64	2,820
Additions	11	0	48	0	15	23	97
Disposals	-2	0	-26	0	-10	-1	-39
Reclassifications	9	0	36	0	3	-48	0
Translation differences	-53	0	-158	0	-11	-3	-225
Other movements	5	0	2	0	0	0	7
At December 31, 2002	587	22	1,846	22	192	35	2,660
Accumulated depreciation							
At January 1, 2002	242	5	1,371	10	148	0	1,761
Depreciation 2002	24	1	116	1	20	1	161
Disposals	-2	0	-26	0	-9	-1	-38
Translation differences	-21	0	-118	0	-9	0	-148
At December 31, 2002	243	6	1,343	11	150	0	1,736
Book values							
At December 31, 2002	344	16	503	11	42	35	924
Book values							
At December 31, 2001	375	17	573	12	47	64	1,059

The other movements are the result of reassessments of fair value per IAS 22.71.

Impairment losses on property, plant and equipment amounted to € 8 million (2001: € 5 million). There were no write-ups of property, plant and equipment in the year under review (2001: € 1 million). Finance leases are recognized in respect of buildings and technical facilities with terms of 22.5 years for buildings and 9 and 13.5 years for technical facilities. These leases cannot be terminated before maturity. The lease on the technical facilities includes a purchase option exercisable at contract maturity.

(3) Investments in affiliates and other investments

The changes in investments in affiliates and other investments are as follows:

€ million	Affiliated companies	Other companies	Total
Cost			
At January 1, 2002	3	3	6
Changes in the Group/acquisitions	0	-2	-2
At December 31, 2002	3	1	4
Accumulated write-downs at January 1, 2002	3	0	3
Accumulated write-downs at December 31, 2002	3	0	3
Book values			
At December 31, 2002	0	1	1
Book values			
At December 31, 2002	0	3	3

As in the previous year there were no impairment losses or reversals relating to financial assets in 2002.

(4) Inventories

Inventories are comprised as follows:

€ million	Dec. 31, 2001	Dec. 31, 2002
Raw materials and supplies	162	175
Work in process	111	98
Finished products and merchandise	267	209
Customer prepayments on inventories	1	2
Total	541	484

(5) Trade accounts receivable

Marketing and selling expenses include increases in valuation allowances for doubtful accounts receivable of € 7 million (2001: € 7 million).

(6) Other receivables and other current assets

€ million	Dec. 31, 2001	Dec. 31, 2002
Receivables from affiliates and investments	1	1
(Remaining term up to 1 year)	(1)	(1)
Other current assets	129	127
(Remaining term up to 1 year)	(107)	(103)
Deferred charges	13	12
(Remaining term up to 1 year)	(13)	(12)
Total	143	140
(Remaining term up to 1 year)	(121)	(116)

Other current assets are comprised as follows:

€ million	Dec. 31, 2001 Total	Dec. 31, 2002 Total
Amounts receivable from Henkel KGaA arising from the purchase of the Group	31	34
Tax refunds receivable	24	33
Deferred compensation trust fund	16	15
Prepayments made	2	8
Accounts receivable from suppliers	11	6
Fair value of derivative financial instruments	15	5
Amounts receivable from employees	5	5
Insurance claims receivable	6	4
Securities held on deposit	1	4
Other	18	13
Total	129	127

(7) Cash and cash equivalents

€ million	Dec. 31, 2001	Dec. 31, 2002
Cash balances	196	299
Highly liquid short-term investments	1	0
Total	197	299

(8) Shareholder's equity

The share capital of Cognis GmbH, Düsseldorf, Germany is € 25 thousand. In addition, the shareholder of Cognis GmbH contributed € 150 million to the Company's capital reserve. Changes in fair value of the interest rate hedging instruments, which qualify as cash flow hedges, were recorded directly in the IAS 39 reserve in equity.

The Shareholder's equity of the Cognis Group excluding minority interests at December 31, 2002 amounts to € -5 million (2001: € 131 million). The decrease in Shareholder's equity is primarily attributable to negative foreign currency translation effects of € 71 million, the net loss for the year of € 41 million and decreases in the fair value of interest rate hedging instruments amounting to € 24 million (net of tax).

(9/10) Provisions for pensions and similar obligations, and sundry provisions

Provisions developed as follows in 2002:

€ million	Jan. 1, 2002	Other movements	Utilized	Released	Allocated	Translation differences	Dec. 31, 2002
Provisions for pensions and similar obligations	553	13	-51	-17	53	-32	519
Tax provisions	28	0	-16	-4	11	0	19
Sundry provisions	186	0	-122	-6	129	-9	178
Total provisions	767	13	-189	-27	193	-41	716

Subject to varying national legal, financial and tax regulations, Cognis offers its employees various retirement benefit plans. The Group operates a number of defined benefit pension plans, defined contribution pension plans and post-retirement health-care plans throughout the world. The assets of funded plans are generally held in separate trustee-administered funds. Provisions relating to defined benefit plans have been calculated using the projected unit credit method, which takes the expected future development of wages, salaries and retirement benefits into account. Cumulative actuarial gains and losses are recognized to the extent they exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets. The excess portion is recognized in income over the average remaining service life of employees participating in the plan. For the German defined benefit plan, the calculation of the pension

provision is based on expected future increases of 3.0% in wages and salaries, 1.5% in retirement benefits, and on a discount rate of 5.75%. The pension provision in the USA reflects expected future increases of 5.0% (2001: 5.5%) in wages, salaries and retirement benefits, a discount rate of 7.25% (2001: 7.5%) and, as in 2001, a yield of 9.0% on fund assets. In other countries, the future expectations are based on local conditions in the country concerned. When the Group was purchased, the provisions for pensions at November 30, 2001, were recognized at their fair value in accordance with IAS 22. The other movements in 2002 relate to changes arising from reassessments of fair value per IAS 22.71. € 16 million of pension provisions released relate to a curtailment of the post-retirement healthcare plan of Cognis Corp., USA. The "Utilized" column contains an amount of € 21 million in respect of payments into the pension fund of Cognis Corp., USA.

Composition of pension and similar obligations 2002

€ million	Germany	USA	Rest of world	Dec. 31, 2002
Present value of unfunded obligations	341	110	18	469
Present value of funded obligations	2	204	20	226
Market value of fund assets	-1	-158	-19	-178
	342	156	19	517
Unrecognized actuarial (losses)/gains	-3	11	-6	2
Provisions for pensions and similar obligations	339	167	13	519

Composition of pension and similar obligations 2001

€ million	Germany	USA	Rest of world	Dec. 31, 2001
Present value of unfunded obligations	323	141	10	474
Present value of funded obligations	2	261	24	287
Market value of fund assets	-2	-185	-21	-208
Provisions for pensions and similar obligations	323	217	13	553

2002 costs of pensions and similar obligations are comprised as follows:

€ million	2002
Current charge	17
Actuarial losses	1
Pension costs	18
Other costs for obligations similar to pensions	6
Total	24
Interest expense	44
Expected return on fund assets	-15
Net interest expense	29
Total cost of pension and similar obligations	53

Pension costs of € 24 million (2001: € 18 million) are included in operating profit (EBIT). The finance charge (interest element) less expected return on pension fund assets is recognized in net financing costs (cf. Note 18).

Changes in "Sundry provisions" were as follows:

€ million	January 1, 2002	Utilized	Released	Allocated	Translation differences	Dec. 31, 2002
Employee bonuses	39	-36	0	41	-2	42
Restructuring costs	23	-18	0	23	-2	26
Environmental protection measures	19	-3	-2	3	-2	15
Commissions and bonuses	15	-14	-2	17	-1	15
Employee vacation bonuses	9	-7	0	8	-1	9
Employment anniversary bonuses	7	0	0	0	0	7
Litigation risks	5	-5	0	5	0	5
Anticipated contract losses	4	-4	0	1	0	1
Other	65	-35	-2	31	-1	58
Total	186	-122	-6	129	-9	178

As at December 31, 2002, sundry provisions totaling € 38 million (2001: € 28 million) were non-current (that is, due after more than one year).

(11) Borrowings

Borrowings include all interest-bearing obligations of the Cognis Group outstanding at December 31, 2002. The main components of the Group's borrowings are as follows:

€ million	Dec. 31, 2001 Total	Remaining term			Dec. 31, 2002 Total
		more than 5 years	between 1 and 5 years	up to 1 year	
Bank loans					
Senior loans	1,180	729	341	37	1,107
less:					
Financing fees	-85	-19	-44	-12	-75
Bank overdrafts	23	0	0	21	21
	1,118	710	297	46	1,053
Subordinated loans					
Vendor note from Henkel KGaA	352	377	0	0	377
Loan from Cognis Holding Lux.	332	353	0	0	353
Lease commitments	29	9	14	4	27
	713	739	14	4	757
Total	1,831	1,449	311	50	1,810

Of the borrowings outstanding at December 31, 2001, € 37 million had a remaining term of up to one year, € 241 million (comprised of bank loans of € 230 million and other financial liabilities of € 11 million) had a remaining term of one to five years and € 1,553 million (comprised of bank loans of € 852 million and other financial liabilities of € 701 million) had a remaining term of more than five years.

At December 31, 2002, the senior loans were secured by intangible assets of € 319 million (2001: € 565 million), property, plant and equipment of € 783 million (2001: € 623 million), inventories of € 321 million (2001: € 349 million), receivables of € 321 million (2001: € 328 million) and other current assets of € 375 million (2001: € 370 million). As in the previous year, the senior loans are also secured by pledges of shares in Group companies. Cognis Group companies are jointly and severally liable for the senior loan obligations.

The senior loans are comprised as follows:

Facility A with initial principal of € 505 million, remaining principal of € 480 million, initial term 7 years to November 30, 2008, interest rate floating (5.25% at balance sheet date), repayment in 14 increasing semi-annual installments commencing June 30, 2002.

Facility B for € 265 million and USD 132.5 million (€ 126 million), initial term 8 years to November 30, 2009, interest rate floating (euro loan 6.00% and US dollar loan 4.41% at balance sheet date), repayment at maturity.

Facility C for € 110 million and USD 132.5 million (€ 126 million), initial term 9 years to November 30, 2010, interest rate floating (euro loan 7.00% and US dollar loan 5.41% at balance sheet date), repayment at maturity.

The interest rates on these loans are adjusted semi-annually on June 30 and December 31.

The vendor note dated November 30, 2001 from Henkel KGaA for € 350 million bears interest of 7.0% p.a. for the first three years. The term of the loan is 10 years, with early repayments possible at any time.

The loan dated November 28, 2001 from Cognis Holding Luxembourg S.a.r.l. for € 330 million ("shareholder loan") bears interest of 6.55% p.a. and has a term of 20 years, with early repayments possible at any time.

The following future minimum finance lease payments are due:

€ million	2001	2002
Due up to 1 year	4	4
Due between 1 and 5 years	16	17
Due later than 5 years	23	18
Total minimum lease payments due	43	39
Less: Interest component	14	12
Present value of finance lease liabilities	29	27

Lease payments may be indexed on March 30, 2004. In the table above, future lease payments have been estimated based on the assumption that the lease payments will not be changed. The interest rates implicit in the finance lease liabilities range from 6 to 7 percent.

(12) Trade accounts payable

Trade accounts payable are due to third parties and are all due within one year from the balance sheet date.

(13) Other liabilities

Other liabilities are comprised as follows:

€ million	Dec. 31, 2001 Total	Dec. 31, 2002 Total
Taxes payable	10	12
(Remaining term up to 1 year)	(10)	(12)
Liabilities in respect of social security	6	10
(Remaining term up to 1 year)	(6)	(10)
Sundry liabilities including deferred income	73	93
(Remaining term up to 1 year)	(53)	(69)
Total	89	115
(Remaining term up to 1 year)	(69)	(91)

Sundry liabilities are comprised as follows:

€ million	Dec. 31, 2001	Dec. 31, 2002
Liabilities to employees	33	32
Negative fair value of derivative financial instruments	2	31
Taxes and social security payments for employees	8	8
Payable to customers	2	5
Pension payments payable	5	4
Customer prepayments	1	1
Other	22	12
Total	73	93

Liabilities to employees largely comprise liabilities from the pre-retirement part-time employment plan and deferred compensation. Included in this figure are liabilities with a remaining term of up to one year in the amount of € 8 million (2001: € 13 million).

Notes to the Consolidated Income Statement

Restructuring costs, research and development costs and amortization of goodwill have been disclosed separately owing to their significance and in order to more fully disclose the financial performance of the Cognis Group.

(14) Other operating income

€ million	2001	2002
Release of provisions for pensions and similar obligations	1	15
Release of other provisions	1	6
Gains from disposals and write-ups of fixed assets	5	1
Release of allowances for doubtful accounts receivable	1	1
Other	26	12
Total	34	35

Income from the release of provisions for pensions and similar obligations results from the restructuring of the post-retirement healthcare plan of Cognis Corp., USA.

Other operating revenue includes prior-period income, insurance claims and refunds.

(15) Other operating expenses

Other operating expenses amounting to € 20 million (2001: € 24 million) include write-downs on the purchased order book per IAS 22, insurance deductibles, litigation costs, product guarantee costs and customer service costs.

(16) Restructuring costs

Restructuring costs result from early retirement plans and from plant or business closures that are either incurred or approved and announced.

The total cost is made up as follows:

€ million	2001	2002
Early retirement plans	28	21
Cost of closures or production relocation	3	13
Impairment losses	5	7
Total	36	41

(17) Exceptional items

Net gains from exceptional items in the amount of € 3 million are included in 2002 operating profit (EBIT) of € 142 million. The net gain is the net result of € 15 million in gains resulting from the restructuring of the post-retirement healthcare plan of Cognis Corp., USA, € 4 million in other income, € 7 million in costs for new SAP systems relating to the ongoing separation from Henkel, € 2 million in litigation costs incurred in South America and € 7 million in other exceptional costs.

(18) Net financing costs

€ million	2001	2002
Interest expense		
- Senior loans	6	67
- Amortization of financing fees of senior loans	2	9
- Subordinated loans	4	46
- Finance leases	2	2
- Pension provisions	28	29
- Other interest expense	45	3
Total	87	156
Interest income	-13	-8
Net interest expense	74	148
Gain on sale of investment	-24	0
Income from investments	-1	-1
Foreign exchange gains/losses	-1	17
Fair value gains/losses on financial instruments		
- Interest rate swaps and collars:		
Cash flow hedges (transfer from IAS 39 equity reserve)	0	11
- Forward contracts not qualifying as hedges	5	2
Banking fees and other financial expenses	1	6
Total	54	183

Income is shown as negative.

2001 other interest expense includes interest on financing from Henkel predating the acquisition of the Cognis Group. The increase in interest expense results from interest on senior and subordinated loans obtained to finance the acquisition of the Cognis Group. Interest on these loans was incurred starting December 2001. The gain on sale of investment in 2001 comprised the gain from the sale of Cognis' interest in San Nopco, Japan.

(19) Income tax expense/recovery

€ million	2001	2002
Current taxes	64	30
Deferred taxes	-6	-47
Total	58	-17

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

€ million	Deferred tax assets December 31, 2001	Deferred tax liabilities December 31, 2001	Deferred tax assets December 31, 2002	Deferred tax liabilities December 31, 2002
Patents / Licenses	4	19	3	16
Goodwill	1	0	0	1
Property, plant and equipment	1	56	4	50
Financial assets	0	0	6	6
Inventories	9	11	19	3
Other receivables and other current assets	3	2	18	2
Special tax-allowable items	0	22	4	0
Provisions	120	0	118	2
Liabilities	19	11	14	5
Loss carry-forwards	30	0	55	0
	187	121	241	85
Amounts net	-73	-73	-42	-42
Balance sheet figures	114	48	199	43

The deferred tax balances in respect of provisions relate mainly to pension and similar obligations.

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

€ million	Dec. 31, 2001	Dec. 31, 2002
Expiry date within		
1 year	5	6
2 years	8	2
3 years	3	0
more than 3 years	8	38
Indefinite carry-forward	70	134
Total	94	180

Deferred tax assets are recognized when the probability of realization exceeds 50% as supported by business plans. Deferred tax assets have not been recognized in respect of loss carry-forwards of € 25 million (2001: € 29 million), since they are not expected to be realized.

The reconciliation from the expected to the effective tax charge and rate is shown in the following:

€ million	2001	2002
Profit before tax	120	-41
Tax rate on income of Cognis Deutschland GmbH	40%	40%
Estimated tax charge / proceeds	48	-16
Effect of different tax rates in other countries	-10	-11
Income not subject to tax	-10	-6
Expenses not deductible for tax purposes	30	16
Income tax expense / recovery	58	-17
Effective tax rate	48.3 %	42.0 %

Tax recoveries are shown as negative. The effective tax charge has been calculated on the basis of figures in euro rounded to the nearest thousand.

(20) Minority interests

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

€ million	2001	2002
Attributable profits	13	17
Attributable losses	-1	0
Total	12	17

(21) Cost of materials

€ million	2001	2002
Cost of raw materials, supplies and merchandise	1,638	1,569
Cost of external services	135	135
Total	1,773	1,704

(22) Payroll costs

€ million	2001	2002
Wages and salaries	417	406
Social security contributions and employee benefits	89	87
Pension costs	18	19
Total	524	512

(23) Employee numbers

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

	2001	2002
Production	5,265	5,306
Marketing, sales and distribution	1,389	1,317
Research, development and applications engineering	943	914
Administration	1,484	1,358
Total	9,081	8,895

Supplementary Information

(24) Derivatives and other financial instruments

Management of financial risk

The Cognis Group is exposed to various financial risks, particularly those arising from changes in foreign exchange rates and interest rates. The central treasury department uses derivative financial instruments in order to control exposure to such risks. These derivatives are employed solely for hedging purposes.

All instruments used can be modeled and valued by internal or external computer systems. Forward exchange contracts are used to hedge currency risks, while interest rate swaps, caps and floors are used to hedge interest rate risks.

Currency risks

Central Treasury and Group companies use external forward exchange contracts in order to limit fluctuations in future cash flows. Accounts receivable and payable in each currency are netted for hedging purposes in order to hedge net positions by currency. Cognis' foreign currency hedging activities do not qualify as cash flow hedges under IAS 39.

Interest rate risks

Central Treasury uses interest rate hedging instrument to hedge against adverse cash flow effects resulting from changes in interest rates, particularly EURIBOR and LIBOR.

Interest on Cognis' three senior loan facilities (as described in Note 11) is generally comprised of a variable interest component, which is linked to EURIBOR (euro loans) or LIBOR (US dollar loans), and of a margin based on certain Group financial ratios. In order to hedge the interest risk related to the variable interest component, the Cognis Group has entered into various interest rate swap and option (collar) contracts. As a result, loans bearing floating interest rates are converted in economic terms into loans bearing interest rates which are either fixed or variable only within a defined range. This constitutes an effective cash flow hedge against the risk of interest rate fluctuation.

The interest rate option contracts each comprise a cap and a floor, together creating a "collar" that restricts Cognis' exposure to interest rate variability. At inception, these interest rate option contracts were accounted for at cost (the option premium). The initial cost of interest rate swaps is nil. Both the interest rate option contracts and the interest rate swaps were revalued to fair value as at the balance sheet date. The change in fair value amounting to negative € 47 million and the offsetting deferred tax effect of € 12 million (2001: € 4 million after tax) were taken to the IAS 39 reserve in equity. These fair value adjustments are then transferred from equity into the income statement when the hedged item, in this case the variable rate interest expense, affects the income statement. On this basis, fair value losses of € 11 million (2001: nil) were transferred from the IAS 39 reserve to the Income Statement in 2002. Note that the fair value losses on the interest rate hedging instruments offset lower variable rate interest expense.

The total initial notional amount of euro-denominated interest rate option contracts is € 200 million, with cap and floor interest rates of 4.25% and 2.5% and remaining terms of four years from the balance sheet date. The initial notional amount of the USD-denominated interest rate option is USD 48 million, with cap and floor interest rates of 4.75% and 2.5% and a remaining term of three years.

The total initial notional amount of euro-denominated interest rate swaps is € 600 million, with fixed interest rates between 4.05% and 4.19%, and remaining terms of four years. The total notional amount of USD-denominated interest rate swaps is USD 190 million, with fixed interest rates between 3.88% and 4.29% and remaining terms of two years.

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

€ million	Notional amounts		Fair values	
	Dec. 31, 2001	Dec. 31, 2002	Dec. 31, 2001	Dec. 31, 2002
Forward exchange contracts	181	274	1	-2
Interest rate hedging instruments	1,013	1,027	13	-23
Total	1,194	1,301	14	-25

(25) Segment information – Breakdown of sales by geographical region

€ million	Germany	Rest of Europe	North America	Latin America	Africa	Asia-Pacific	Group
Sales by company jurisdiction 2002	1,028	696	835	174	5	388	3,126
Change from previous year in %*	0.7	6.8	-5.0	-6.2	10.2	-0.8	-0.2
Proportion of Group sales 2002 in %*	32.9	22.3	26.7	5.5	0.2	12.4	100.0
Sales by company jurisdiction 2001	1,020	652	879	186	5	391	3,133
Sales by destination 2002	504	1,027	821	243	45	486	3,126
Change from previous year in %*	-0.2	5.1	-2.6	-12.6	-6.9	0.6	-0.3
Proportion of Group sales 2002 in %*	16.1	32.9	26.3	7.8	1.4	15.5	100.0
Sales by destination 2001	505	977	842	278	48	483	3,133

* Percentages calculated on the basis of the segment figures in € thousands.

(26) Contingent liabilities

Contingent liabilities are as follows:

€ million	Dec. 31, 2001	Dec. 31, 2002
Trade notes issued	2	0
Guarantees issued	4	0
Total	6	0

In accordance with the provisions of Section 17 of the Republic of Ireland Companies (Amendment) Act 1986, Cognis GmbH has given irrevocable guarantees for the year from January 1, 2002 to December 31, 2002 in respect of the liabilities, as referred to in Section 5 (c) (ii) of that Act, of the subsidiary companies Cognis Ireland Limited, Dublin, Cognis Ireland (Marketing) Limited, Dublin, Bumblebee Limited, Dublin, and Catstyecam Limited, Dublin. The maximum potential obligation arising from these guarantees is €6 million.

(27) Other financial commitments

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

€ million	Dec. 31, 2001	Dec. 31, 2002
Payment obligations under rent, leasehold and leasing agreements	59	39
- of which due in the following year	20	16
- in the 2nd year	19	15
- in the 3rd year	9	5
- in the 4th year	7	2
- in the 5th year	4	1
- in the 6th year or later	-	-
Orders for property, plant and equipment	10	9
Orders for inventories	147	219
Total	216	267

With regard to commitments arising from finance leases, refer to Note 11.

(28) Compensation and loans to Supervisory and Management Boards

Total compensation to members of senior corporate management amounted to € 2,591,563. Compensation to former members of corporate management and their surviving dependants amounted to € 934,707. Pension provisions of € 9,945,480 for these individuals have been accrued in the annual financial statements of Cognis GmbH.

The remuneration of the Supervisory Board amounted to € 90,000. During 2002, one member of the Management Board was granted a company loan in the amount of € 30,000. The loan bears interest at 5.5% p.a. and is to be repaid by May 31, 2006 in annual installments starting May 31, 2003.

(29) Transactions with shareholder

Cognis GmbH is owned by Cognis Holding Luxembourg S.a.r.l. As disclosed in Note 11 – “Borrowings,” Cognis Holding Luxembourg S.a.r.l. has lent principal of € 330 million to a subsidiary of Cognis GmbH. Interest on this loan amounted to € 22 million in 2002 and total interest payable on this loan amounted to € 23 million at December 31, 2002. Interest is to be paid at loan maturity.

(30) Principal subsidiary companies

Company	Domicile	Share of capital	
		Dec. 31, 2001	Dec. 31, 2002
		%	%
Cognis Deutschland GmbH & Co. KG	Düsseldorf (Germany)	100	100
Cognis Corporation	Cincinnati (USA)	100	100
Cognis France S.A.	Ponthierry (France)	100	100
Cognis Iberia S.L.	Barcelona (Spain)	100	100
Cognis S.p.A.	Fino Mornasco (Italy)	100	100
Grünau Illertissen GmbH	Illertissen (Germany)	100	100
Cognis Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	100	100
Cognis Brasil Ltda.	São Paulo (Brazil)	100	100
Cognis Japan Ltd.	Tokyo (Japan)	100	100
Cognis Oleochemicals (M) Sdn. Bhd.	Selangor (Malaysia)	50	50
Shanghai Cognis Oleochemicals Ltd.	Shanghai (China)	100	100
Cognis Mexico S.A. de C.V.	Ecatepec de Morelos (Mexico)	100	100

Düsseldorf, February 25, 2003



Dr. Antonio Trius
Chief Executive Officer



Dr. Helmut Heymann
Executive Vice President
Chief Administration Officer



Joachim Söhngen
Executive Vice President
Chief Financial Officer

Report of the Independent Auditors

The fully expanded version of the consolidated annual financial statements of Cognis GmbH prepared by us as at December 31, 2002, is filed in our offices. These consolidated financial statements have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft and have been confirmed by said auditors as follows:

We have audited the voluntary consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholder's equity and cash flows as well as the notes to the financial statements prepared by the Cognis-Group for the business year from January 1, 2002 to December 31, 2002. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA) and Auditing Standards Generally Accepted in the United States of America (US-GAAS). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Cognis-Group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2002 to December 31, 2002, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Düsseldorf, February 25, 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Gewehr	Pietsch
Wirtschaftsprüfer	Wirtschaftsprüfer

Supervisory Board and Corporate Management

Supervisory Board of Cognis Verwaltungs-GmbH

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

Dr. Harald Wulff

Chairman, Düsseldorf
(1) (3) (4) (5)
Former CEO of Cognis

Thomas Fischer

Vice Chairman, Düsseldorf
(2) (3) (4) (5)
Chairman of the Workers' Councils of Cognis GmbH & Co. KG and Europe

Dr. Uwe-Ernst Bufe

Königstein (1) (3)
Former CEO of Degussa Hüls AG
Chairman, UBS Warburg AG, Frankfurt
Altana AG, Bad Homburg

John Cheesmond

Basel, Switzerland (1) (4)
Schroder Ventures Lifesciences
Former Executive Vice President and Member of Management Board of Ciba Specialty Chemicals
Orchid Chemicals & Pharmaceuticals Ltd (India)

Dr. Wolfgang Fink

Frankfurt am Main
(1) (5)
Goldman, Sachs & Co. oHG

Franz-Josef Gerken

Löhne (2) (3)
Chairman of the Workers' Council of Stalo-Chemicals GmbH

Dr. Bernhard Gutsche

Düsseldorf (2)
Director
CRT Process Technology
Cognis GmbH & Co. KG

Thomas Hergarten

Düsseldorf (2)
Vice Chairman of the Workers' Council of Cognis GmbH & Co. KG

Gertraud Lauber

Frankfurt am Main
(2)
Full-time Head of District, Industriegewerkschaft Bergbau, Chemie, Energie

Erich Ruch

Düsseldorf (2) (5)
Full-time Head of District, Industriegewerkschaft Bergbau, Chemie, Energie
3M Deutschland GmbH
3M German Holdings GmbH

Ian Sellars

London, United Kingdom
(1)
Permira Advisers Ltd.

Richard Sharp

London, United Kingdom
(1)
Goldman Sachs International

(1) Owners' Representative, (2) Employees' Representative, (3) Member of Codetermination Committee pursuant to German legislation § 27 [3] MitbestG, (4) Member of Human Resources and Compensation Committee, (5) Member of Finance Committee

Cognis GmbH Management Board

Dr. Antonio Trius

Chief Executive Officer

Dr. Helmut Heymann

Executive Vice President
Chief Administration Officer

Joachim Söhngen

Executive Vice President
Chief Financial Officer

Executive Committee (In addition to the members of the Cognis GmbH Management Board)

Paul Allen

Group Vice President
Nutrition & Health

Dr. Alfred Meffert

Group Vice President
Worldwide Manufacturing

Pierre Renaud

Group Vice President
Oleochemicals

Dr. Michael Schulenburg

Group Vice President
Germany and Northern Europe

Jorge Guixá

Group Vice President
Southern Europe

Michael E. Miller

Group Vice President
North America

Richard Ridinger

Group Vice President
Care Chemicals

Guido Willems

Group Vice President
Functional Products

Dr. Klaus Künstler

Group Vice President
Research and Technology

Affiliated Companies Management Group

Yusuf Aktalay

Japan

Gerd Fabritius

Thailand

Michael E. Miller

USA

Dr. Michael Schulenburg

Düsseldorf, Germany

Rubens-Paulo Becker

Brazil, Argentina

Juan-Carlos Figueroa

Mexico

Anthony Popper

Australia

Karl-Heinz Willemsen

Indonesia

Ken Bodendistel

Canada

Jorge Guixá

France, Spain

Enda Quigley

Ireland

Raymond Yap

Malaysia

Franco Cuciti

Italy

Brian Hoey

South Africa

Dr. Ullrich Reckert

Illertissen, Germany

Manuel Zerwes

China, Taiwan

Ferit Erözlü

Turkey

Jens-Axel Kähler

United Kingdom,
Scandinavia, Netherlands

Glossary

Cognis

The name of the Company immediately conjures up both its attributes and its aspirations. It is derived from the Latin “cognoscere,” meaning to perceive, recognize, be informed. These associations with knowledge and realization are also reflected in the Cognis logo – the iris of the human eye.

Please note that all the product names cited in this Annual Report are registered trademarks or brand names of Cognis or of companies of the Cognis Group.

Chemical terms

Derivatives From the Latin “derivare,” to derive. Derivatives are chemical compounds that are derived from another compound through the carefully controlled replacement of specific individual atoms or atom groups.

Emulsifier Agent by means of which two different, non-miscible liquids (e.g. oil and water) can be transformed into an emulsion. The emulsion consists of micro-particles of both liquids that are uniformly mixed together.

Enzymes Biological catalysts which facilitate all the chemical reactions that take place in a living organism. Cells have a special enzyme for each metabolic reaction of this kind. At least 1,000 enzymes have already been identified; however, the actual number is certainly higher. Enzymes are also used industrially in modern biotechnological manufacturing processes.

Fatty acids Long-chain organic acids which – bound to glycerin – are found in all vegetable and animal fats and oils. Fatty acids constitute an important base-stock for numerous chemical products.

Fatty alcohols Long-chain alcohols obtained from fatty acid methyl esters or directly from fatty acids by reaction with hydrogen (hydrogenation). Fatty alcohols are an important basestock for surfactants.

Oleochemistry Generic term for industrial chemical processing of oils and fats obtained from renewable raw materials, as opposed to petrochemistry which is based on mineral oil.

Photomer Registered and protected Cognis designation of a product group of solvent-free, UV radiation-curing acrylates used for printing inks and various coating compounds.

Phytosterols Natural-source sterol esters. Biologically important organic compounds of vegetable origin (phyto = plant), used in the manufacture of medicines and health foods. One of the properties of phytosterols lies in their ability to reduce the cholesterol level in the blood.

Polymer Macro-molecule constructed from many identical or similar smaller units (monomers). Polymerization is an important process in the manufacture of plastics.

Primary surfactants Water-soluble surface-active chemical compounds which are used predominantly in laundry detergents and cleaning agents. They dissolve the dirt and reduce the surface tension of the water.

Financial terms

Fixed assets Those parts of the total assets of a company which are intended for long-term use. They include land, buildings, machinery, vehicles and property as well as investments and participating interests, franchises, licenses and patents. Fixed assets do not include inventories, i.e. stocks of raw materials and stocks of goods already manufactured.

Cash flow A variable calculated by deducting all current expenditures from sales revenue (including taxes and interest on loans, but excluding depreciation, amortization and provisions). The cash flow thus provides an important indication of the financial viability of an enterprise.

EBITDA Recurring “Earnings before interest, taxes, depreciation and amortization” – i.e. earnings before deduction of depreciation on physical assets and excluding amortization of intangible assets such as patents, licenses and capitalized goodwill. Recurring EBITDA, which also excludes restructuring costs and other one-time charges (e.g. arising from the purchase of the Group) is an important indicator of current business performance. This figure reflects the earning power of the company from its operating activities – free from exceptional items.

IFRS International Financial Reporting Standards, formerly known as International Accounting Standards (“IAS”). IFRS are internationally accepted accounting standards, which allow the financial statements of companies around the world to be presented on a consistent, comparable basis.

Leveraged Buy-Out The purchase of a company by a financial investor using a large amount of debt. The leverage effect occurs where the return on equity is additionally increased due to the overall return on capital generated by the company exceeding the interest payable on the debt. For Cognis, the purchase of the Group means greater independence on the one hand, and, on the other, a step increase in liabilities and thus the debt servicing requirement as compared with previous years.

General technical terms

Amino acids Important building blocks of proteins. There are over 200 amino acids in total, and 25 amino acids have been identified in the human body. Ten of them are essential, i.e. the organism cannot manufacture them itself and must therefore receive them through external nourishment.

Cholesterol A vital component of cell membranes and starting material for the body’s own production of bile acid, vitamin D and sex hormones. However, excessively high cholesterol levels lead to arterial sclerosis and gallstones.

Sustainable development Satisfying the economic, ecological and social requirements of today’s society without adversely affecting the chances of future generations to develop. Maintaining this balance is the basic credo of sustainable development. Cognis has expressly committed itself to this edict which was agreed by the United Nations for the community of peoples at the 1992 environment conference in Rio de Janeiro.

Photosynthesis Photosynthesis is the most important biochemical process on Earth. Plants use their chlorophyll to harness the sunlight so as to convert carbon dioxide and water into oxygen and carbohydrates – one of the secrets of life on this blue planet of ours.

Proteins Substances that make up more than half the dry mass of living organisms and which are involved in the most important metabolic processes. Proteins perform a wide range of different functions depending on their structure and solubility. They are also widely employed in the chemical industry, too, for example in the manufacture of manmade fibers and plastics.

Ready-to-market products Most Cognis products are shipped to manufacturers who use them in the production of their own products. Increasingly, however, Cognis is also developing products for the consumer. Various business models are possible: Manufacturers may purchase these products and then market them directly under their own brand names (the so-called private labels). In other cases, Cognis distributes its ready-to-market products through dealerships. Examples include synthetic gear oils for heavy trucks, and cosmetic facemasks.

Cognis worldwide

Cognis does business in more than 100 countries around the world.

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Belgium
Benin
Bolivia
Bosnia-Herzegovina
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Colombia
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