

Key figures at a glance

Total business	1999 ¹⁾	2000 ¹⁾	2001
Net sales	€ 2,856 million	€ 3,195 million	€ 3,133 million
Operating profit (EBIT)	€ 179 million	€ 221 million	€ 174 million
Recurring EBIT (operating profit excluding exceptional items)		€ 236 million ²⁾	€ 253 million³⁾
Net earnings including minority interests	€ 91 million	€ 109 million	€ 62 million
Return on sales (EBIT)	6.3 %	6.9 %	5.6 %
Capital accounts ⁴⁾	€ 629 million	€ 729 million	€ 876 million
Total assets	€ 2,046 million	€ 2,170 million	€ 3,168 million
Capital expenditure	€ 76 million	€ 108 million	€ 117 million
Depreciation and amortization expense	€ 152 million	€ 131 million	€ 144 million
Personnel costs	€ 434 million	€ 514 million	€ 524 million
Employees (average for year)	9,000	9,138	9,081

¹⁾Please refer to page 56, Notes, in this Annual Report for explanations relating to the fiscal 2000 consolidated financial statements published last year.

²⁾Exceptional items amounting to € 15 million in fiscal 2001 include restructuring costs of € 14 million and other exceptional items of € 1 million.

³⁾The exceptional items amounting to € 79 million include restructuring costs of € 36 million, charges in relation to the discontinuation of a product line in the Nutrition & Health unit amounting to € 12 million, expenses arising from the purchase of the Cognis Group amounting to € 11 million, write-downs amounting to € 10 million on goodwill and assets similar to goodwill arising from the purchase of the Cognis Group, expenses arising from the devaluation of the Argentine currency amounting to € 4 million, and charges likewise amounting to € 4 million arising from the economic and currency crisis in Turkey during the first half of fiscal 2001 (other exceptional items: € 2 million).

⁴⁾Figures include equity, minority interests and subordinated loans.

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Balance Sheet

Assets	Notes	December 31, 2000		December 31, 2001	
		€ mill.	%	€ mill.	%
Intangible assets	(1)	77	3.6	590	18.6
Property, plant and equipment	(2)	834	38.4	1,059	33.4
Financial assets	(3)	7	0.3	3	0.1
Fixed assets		918	42.3	1,652	52.1
Deferred tax assets	(4)	95	4.4	114	3.6
Inventories	(5)	537	24.8	541	17.1
Trade accounts receivable	(6)	524	24.1	521	16.5
Other receivables and miscellaneous assets	(7)	78	3.6	143	4.5
Liquid funds/Marketable securities	(8)	18	0.8	197	6.2
Current assets		1,157	53.3	1,402	44.3
Total assets		2,170	100.0	3,168	100.0

Shareholders' Equity and Liabilities	Notes	December 31, 2000		December 31, 2001	
		€ mill.	%	€ mill.	%
Equity excluding minority interests	(9)	672	31.0	131	4.1
Minority interests	(10)	57	2.6	60	1.9
Equity including minority interests		729	33.6	191	6.0
Provisions for pensions and similar obligations	(11)	454	20.9	553	17.5
Other provisions	(12)	146	6.7	214	6.8
Provisions		600	27.6	767	24.3
Provisions for deferred tax liabilities	(13)	40	1.9	48	1.5
Borrowings	(14)	457	21.1	1,831	57.8
Trade accounts payable	(15)	252	11.6	242	7.6
Other liabilities	(16)	92	4.2	89	2.8
Liabilities		801	36.9	2,162	68.2
Total equity and liabilities		2,170	100.0	3,168	100.0

Statement of Income

	Notes	December 31, 2000		December 31, 2001	
		€ mill.	%	€ mill.	%
Sales	(19)	3,195	100.0	3,133	100.0
Cost of sales	(20)	-2,318	-72.6	-2,247	-71.7
Gross profit		877	27.4	886	28.3
Marketing, selling and distribution costs	(21)	-461	-14.4	-462	-14.8
Research and development costs	(22)	-67	-2.1	-73	-2.3
Administrative expenses	(23)	-136	-4.3	-145	-4.6
Other operating income	(24)	37	1.1	34	1.1
Other operating expenses	(25)	-8	-0.3	-24	-0.8
		242	7.4	216	6.9
Amortization of goodwill		-7	-0.1	-6	-0.2
Restructuring costs	(26)	-14	-0.4	-36	-1.1
Operating profit (EBIT)		221	6.9	174	5.6
Net income from participations		2	0.1	25	0.7
Net interest expense		-61	-1.9	-79	-2.5
Financial items	(27)	-59	-1.8	-54	-1.8
Earnings before tax		162	5.1	120	3.8
Taxes on income	(28)	-53	-1.7	-58	-1.9
Net earnings prior to minority interests and set-off against purchase price		109	3.4	62	1.9
Minority interests	(29)	-9	-0.3	-12	-0.3
Net earnings (in 2001: prior to set-off against purchase price)		100	3.1	50	1.6
Set-off against purchase price (net earnings from January 1 to November 30, 2001)		0	0.0	-75	-2.4
Net loss December 2001		100	3.1	-25	-0.8

Changes in Fixed Assets

€ million	Intangible assets	Property, plant and equipment	Financial assets	Total
Cost				
At January 1, 2001	125	2,471	10	2,606
Changes in the Group/acquisitions	528	225	-1	752
Additions	1	116	2	119
Disposals	-3	-47	-5	-55
Translation differences	3	55	0	58
At December 31, 2001	654	2,820	6	3,480
Accumulated depreciation				
At January 1, 2001	48	1,637	3	1,688
Changes in the Group/acquisitions	0	7	0	7
Write-ups 2001	0	-1	0	-1
Depreciation 2001	18	126	0	144
Disposals	-2	-44	0	-46
Translation differences	0	36	0	36
At December 31, 2001	64	1,761	3	1,828
Book values				
at December 31, 2001	590	1,059	3	1,652
Book values				
at December 31, 2000	77	834	7	918
Amount charged for depreciation and amortization in 2001 comprises:				
Scheduled depreciation and amortization	15	121	0	136
Unscheduled depreciation and amortization	3	5	0	8
Total	18	126	0	144
The amount charged for depreciation and amortization in 2000 comprises:				
Scheduled depreciation and amortization	13	112	0	125
Unscheduled depreciation and amortization	0	6	0	6
Total	13	118	0	131

Cash Flow Statement

€ million	2000	2001
Operating profit (EBIT)	221	174
Income taxes paid	-70	-62
Depreciation/write-ups of fixed assets (excl. financial assets)	130	143
Net gains from disposals of fixed assets (excl. financial assets)	-2	-4
Cash flow	279	251
Change in inventories	-25	4
Change in receivables and miscellaneous assets	-29	-62
Change in liabilities and short-term provisions	8	41
Net cash flow from operating activities	233	234
Capital expenditure on intangible assets	-1	-1
Capital expenditure on property, plant and equipment	-107	-116
Capital expenditure on financial assets	-1	-2
Acquisitions	-28	-14
Proceeds from disposals of fixed assets	11	10
Proceeds from disposals of participating interests	0	29
Net cash flow from investing activities	-126	-94
Subsidiary company dividends (to other shareholders)	-5	-9
Dividends to Henkel KGaA	-53	0
Change in borrowings	-43	-62
Interest and dividends received	9	21
Interest paid	-45	-68
Increase in capital of a Cognis Group company contributed by Henkel	33	22
Net cash flow from financing activities	-104	-96
Acquisitions	0	-660
Change in borrowings	0	1,432
Equity set-off against purchase price	0	-850
Increase in capital of a Cognis Group company contributed by Henkel	0	63
Capital increase attributable to new shareholders	0	150
Net cash inflow from purchase of Group	0	135
Change in cash and cash equivalents	3	179
Effect of exchange rate changes on cash and cash equivalents	1	0
Adjustment to liquid funds arising out of deconsolidation	-1	0
Change in liquid funds and marketable securities	3	179
Liquid funds and marketable securities at January 1, 2001	15	18
Liquid funds and marketable securities at December 31, 2001	18	197

Notes to the Financial Statements

Preliminary remark

These condensed financial statements have been derived from the combined financial statements of Cognis GmbH as at December 31, 2001 which were prepared in accordance with International Accounting Standards (IAS).

General disclosures

The combined financial statements of the Cognis Group have been drawn up in accordance with the International Accounting Standards (IAS) of the International Accounting Standards Board (IASB).

Effective November 30, 2001, Cognis GmbH, acting via its wholly owned subsidiary Cognis Deutschland GmbH & Co. KG and the latter's own subsidiaries, acquired all shares in the companies of the Cognis Group including existing joint ventures of these companies, from the Henkel Group, Düsseldorf, Germany.

The Cognis Group as an independently operating entity in the financial years to December 31, 2000, and to December 31, 2001, prepared combined financial statements through the Group-controlling companies Cognis B.V., Roermond, Netherlands (to November 30, 2001), and Cognis GmbH, Düsseldorf, Germany (from December 1, 2001). These extensively reflect the financial situation that would have prevailed if the Group had already existed in its current legal form and structure in fiscal 2000 and fiscal 2001 respectively.

The combined financial statements for fiscal 2000 published last year were modified as a result of new information coming to light from the numerous analyses performed in the course of the purchasing procedure and further activities relating to the carve-out of the Cognis Group as a legally separate entity fully independent of the Henkel Group. These were then re-audited and confirmed by KPMG. The previous year's figures shown in the 2001 combined financial statements relate exclusively to these restated fiscal 2000 annual financial statements.

In regard to the acquisition of the companies consolidated, the assets and liabilities of the Cognis Group were recognized at their fair values in accordance with IAS 22 with effect from November 30, 2001. The difference between the revalued net assets and the purchase price was recognized as goodwill. The shareholders' equity of the Group at November 30, 2001, including the results generated up to that date, was likewise fully set off against the purchase price (cf. changes in shareholders' equity under Notes 9/10 to these financial statements).

We have shown the costs of restructuring, research and development, and also amortization of goodwill, separately owing to their individual importance and in order to provide a better insight into the earnings position.

Purchase of the Group

Following the signing of the sale & purchase agreement on September 12, 2001 and with the transfer of assets and liabilities effective November 30, 2001, Cognis GmbH acquired at a purchase price of € 1,454 million (including ancillary costs) via its wholly owned subsidiary Cognis Deutschland GmbH & Co. KG and the latter's own subsidiaries, all shares in the companies of the Cognis Group including existing joint ventures of these companies.

The purchase of the Group was reported in the balance sheet in accordance with the "allowable alternative purchase method". Consequently, the purchase price was allocated to the acquired assets and the acquired liabilities on the basis of their fair values as at November 30, 2001.

The additions from the write-ups and other items capitalized within the framework of the breakdown and allocation of the purchase price are recognized as changes in fixed assets in the line "Changes in the Group/acquisitions".

Companies included in the consolidation

Included in the consolidated annual financial statements of the Cognis Group are companies in which Cognis GmbH either directly or indirectly owns a majority of the voting rights, or which fall under its common control.

The companies included in the consolidation as at December 31, 2001, were as follows:

	Number of companies as at December 31, 2001
North-West Europe	16
South Europe	9
Asia-Pacific	15
North America	3
Latin America	4
Total	47

Major Group companies

Company	Domicile	Participating interest	
		Dec. 31, 2000	Dec. 31, 2001
		%	%
Cognis Deutschland GmbH & Co. KG (until 6/2001: Cognis Deutschland GmbH)	Düsseldorf (Germany)	100	100
Cognis Corporation	Cincinnati (USA)	100	100
Cognis France S.A.	Ponthierry (France)	100	100
Cognis Iberia S.L.	Barcelona (Spain)	80	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

Accounting, valuation and consolidation policies

The first date for consolidation of the acquisitions as outlined above was November 30, 2001.

Subsidiaries are consolidated by setting off the cost of the investments against the proportion of net assets attributable to them at the date of their acquisition or at the date when they are consolidated for the first time. The assets and liabilities are measured at the fair values attributable to them at the date of acquisition. Any excess of the cost over the fair value of the net assets acquired is treated as goodwill. Any remaining difference by which the cost falls short of the fair value of intangible assets acquired is deducted from goodwill.

Intragroup profits and losses, sales, income and expenses and all accounts receivable and payable between companies included in the consolidation are eliminated.

Goodwill is capitalized and amortized on a straight-line basis over a maximum of 15 years. The useful life of goodwill is determined by reference to contractual commitments, the period over which synergies can be realized, and the strategic importance of the acquisition. The amortization of goodwill is shown as a separate item in the statement of income. Other intangible assets are valued at cost less scheduled straight-line amortization. They are amortized over periods of four to eight years, unless a different period is indicated due e.g. to the expiry of a patent. The amortization of intangible assets (apart from goodwill) is charged to the functional segments or units that use them.

Tangible fixed assets (property, plant and equipment) are valued at cost less scheduled depreciation based on expected usage, and less unscheduled depreciation where appropriate. The cost of assets manufactured in-house includes – in addition to direct costs – appropriate proportions of overhead and depreciation charges. Cost figures are shown net of support payments from third parties. Interest charges on borrowings are not included in manufacturing cost. Repair and maintenance costs are charged immediately as an expense. Buildings are depreciated by the straight-line method over a maximum useful life of 50 years.

Movable fixed assets are generally depreciated by the straight-line method; plant and machinery are depreciated over useful lives of between 7 and 33 years, other factory and office equipment over 5 to 10 years. Tangible fixed assets (property, plant and equipment) that have been fully depreciated remain included in the cost and accumulated depreciation figures until the assets concerned are decommissioned. On the disposal of an asset, its cost and accumulated depreciation figures are taken out, and gains or losses on disposal (disposal proceeds less residual book value) are shown in the statement of income.

Participating interests are shown at cost given that their fair value cannot be ascertained.

If the value of fixed assets calculated in accordance with the above policies exceeds the fair value attributable to them at the balance sheet date, unscheduled depreciation is charged to reflect this. Attributable fair value is the higher of the net selling price of an asset or the present value of the estimated future cash flows to be derived from using the asset. Assets or groups of assets are written down each year whenever an impairment loss is indicated. When the reasons for unscheduled write-downs cease to exist, the write-downs are reversed.

Inventories are valued at purchase or manufacturing cost (to the Group as a whole) using FIFO and weighted average cost formulas, or at net realizable value. Manufacturing cost includes – in addition to direct costs – indirect labor and material costs as well as depreciation charges.

The cost of sales figure in the statement of income also includes costs of unutilized capacity (idle time). Obsolete and slow-moving inventories are marked down accordingly.

Specific identifiable risks associated with accounts receivable are covered by valuation allowances. Marketable securities are recognized at their fair value at the balance sheet date.

Obligations for direct pension commitments are determined using the projected unit credit method, taking future salary and retirement benefit levels into account. The current service cost of future retirement benefits is reflected in changes to the provisions for future pensions based on the benefit formula.

Indirect pension obligations in foreign countries are calculated using assumptions and parameters specific to the countries concerned.

Other provisions are accrued when it is probable that a liability exists and a reliable estimate of the amount of the liability can be made.

Contingent liabilities are not shown on the balance sheet. Potential contingencies at the balance sheet date are listed in Notes 17 and 18.

Income and expenses attributable to the accounting period are recognized regardless of when they are paid. Revenues from the sale of products, goods and services are recognized when the obligation to supply them has been fulfilled, the risk has been transferred, and the amount of the consideration to be paid can be reliably estimated.

Goods returned by customers are accepted on the basis of existing agreements or commercial practice. There were no significant returns during the period under review. Sales rebates, discounts and amounts levied on behalf of others (such as taxes on sales, goods and services) are deducted from the value of sales. Research and development costs are expensed as incurred because they do not meet the criteria for recognition as an asset set out in IAS 38 "Intangible Assets".

Deferred taxes are recognized on differences between the balance sheet valuation and tax base of assets and liabilities of companies included in the consolidation, as well as on consolidation procedures and on tax losses carried forward. Deferred taxes are calculated at the amounts expected to be charged or credited in future years. Deferred tax assets are only recognized if they are reasonably certain to be realized. Deferred tax assets and liabilities are only set off against each other if they can be settled on a net basis with the same tax authority.

Presenting consolidated financial statements to comply with International Accounting Standards requires certain items to be accounted for on the basis of assumptions or estimates which affect their recognition and measurement in the consolidated balance sheet or statement of income, and the disclosure of contingent assets and liabilities. The actual amounts may vary from those assumptions and estimates. Such estimates relate mainly to the measurement of inventory mark-downs, the calculation of provisions for environmental and litigation risks, and the realizability of deferred tax assets.

Currency translation

The annual financial statements of the consolidated companies are prepared in accordance with the functional currency concept. As the functional currency of the consolidated companies is essentially their respective national currency, their assets and liabilities are recognized at the mid rate prevailing at the balance sheet date, while income and expense items are shown at average rates for the year. The difference compared with using closing rates of exchange is taken to equity, shown separately as "Translation differences", and thus has no effect on net earnings. Foreign currency accounts receivable and payable in the Group are translated at the closing rates of exchange. Exchange gains and losses on intragroup debt relationships, which are recognized in the financial statements of individual companies included in the consolidation, are reversed in the consolidated financial statements, but realized as gains or losses when the debt relationships are reduced or redeemed.

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

Unit of currency	ISO code	Average rate in €		Closing rate in €	
		2000	2001	2000	2001
1 British pound	GBP	1.65	1.61	1.6043	1.6420
100 Japanese yen	JPY	1.00	0.92	0.9354	0.8628
1 US dollar	USD	1.08	1.12	1.0747	1.1334

Notes to the Balance Sheet

Fixed assets

Limited-life fixed assets are depreciated exclusively by the straight-line method on the basis of estimated useful lives standardized throughout the Group, unscheduled depreciation also being charged where appropriate.

The following standard useful lives are used as the basis for calculating depreciation for reporting purposes:

Useful lives	Years
Goodwill	up to 15
Trademarks, licenses, patents	4 – 8
Residential buildings	50
Office buildings	33 – 40
Research and factory buildings, workshops, stores and staff buildings	25 – 33
Plant facilities	20 – 25
Machinery and distribution systems	7 – 10
Office equipment	10
Vehicles	5
Factory and research equipment	5

(1) Intangible assets

Only assets acquired for valuable consideration are included under this heading. The additions relate predominantly to the revaluation of the patents and licenses and the goodwill arising within the framework of the purchase price allocation.

Intangible assets

€ million	Patents/Licenses	Goodwill	Total
Cost			
At January 1, 2001	31	94	125
Changes in the Group/acquisitions	373	155	528
Additions	1	0	1
Disposals	-1	-2	-3
Translation differences	1	2	3
At December 31, 2001	405	249	654
Accumulated amortization			
At January 1, 2001	19	29	48
Changes in the Group/acquisitions	0	0	0
Amortization 2001	12	6	18
Disposals	-1	-1	-2
Translation differences	0	0	0
At December 31, 2001	30	34	64
Book values			
at December 31, 2001	375	215	590
Book values			
at December 31, 2000	12	65	77

(2) Property, plant and equipment

Additions are valued at purchase or manufacturing cost. Manufacturing cost includes, in addition to direct costs, appropriate overhead; interest charges on borrowings are not included.

The cost of fixed assets is shown net of investment grants and subsidies.

Fixed assets of low value are written off in full in the year when they are acquired.

Assets held by the Group under the terms of finance leases are included in property, plant and equipment at a total value of € 29 million (previous year: € 31 million). They are included at the present value of the lease payments and depreciated on a straight-line basis. The payment commitments are shown as liabilities.

Property, plant and equipment	Land, land rights and buildings	Plant and machinery	Other factory and office equipment	Payments on account and assets in course of construction	Total
€ million					
Cost					
At January 1, 2001	535	1,706	174	56	2,471
Changes in the Group/acquisitions	50	162	13	0	225
Additions	17	34	14	51	116
Disposals	-5	-27	-13	-2	-47
Reclassifications	9	28	4	-41	0
Translation differences	11	41	3	0	55
At December 31, 2001	617	1,944	195	64	2,820
Accumulated depreciation					
At January 1, 2001	223	1,276	138	0	1,637
Changes in the Group/acquisitions	0	6	1	0	7
Write-ups 2001	0	-1	0	0	-1
Depreciation 2001	19	86	19	2	126
Disposals	-4	-26	-12	-2	-44
Reclassifications	0	0	0	0	0
Translation differences	4	30	2	0	36
At December 31, 2001	242	1,371	148	0	1,761
Book values					
at December 31, 2001	375	573	47	64	1,059
Book values					
at December 31, 2000	312	430	36	56	834

(3) Financial assets

Financial fixed assets are shown at cost or at their lower fair value. The financial assets comprise the following:

€ million	Affiliated companies	Other participations	Total
Cost			
At January 1, 2001	4	6	10
Changes in the Group/acquisitions	-1	0	-1
Additions	0	2	2
Disposals	0	-5	-5
Translation differences	0	0	0
At December 31, 2001	3	3	6
Accumulated write-downs			
At January 1, 2001	3	0	3
Changes in the Group/acquisitions	0	0	0
At December 31, 2001	3	0	3
Book values			
At December 31, 2001	0	3	3
Book values			
At December 31, 2001	1	6	7

(4) Deferred tax assets

This heading comprises deferred tax assets taken over from the individual company balance sheets resulting from differences between the balance sheet valuation of an asset or liability and its tax base; from tax losses carried forward, which are not expected to be reversed; and from consolidation procedures (see also Note 28 below).

(5) Inventories

€ million	Dec. 31, 2000	Dec. 31, 2001
Raw materials and supplies	168	162
Work in process	108	111
Finished products and merchandise	259	267
Payments on account of inventories	2	1
Total	537	541

Inventories are valued at purchase or manufacturing cost, using FIFO and weighted average cost formulas. Any valuations that are too high compared with lower market values at the balance sheet date are marked down accordingly to the fair value. Manufacturing costs include, in addition to direct costs, appropriate overhead (e.g. the goods inward department, filling and other costs prior to the finished products store) and administrative expenses and pension costs attributable to the production process. Interest charges incurred during the period of manufacture are not included.

(6) Trade accounts receivable

Specific risks associated with trade accounts receivable from third parties outside the Group are covered by appropriate valuation allowances. In addition, Group guidelines require an allowance of at least 50% to be provided on accounts which are 90 days overdue; accounts which are 180 days overdue are provided for in full. A total of € 7 million has been provided in the form of valuation allowances for 2001 (previous year: € 3 million).

(7) Other receivables and miscellaneous assets

€ million	Dec. 31, 2000	Dec. 31, 2001
Accounts receivable from companies in which participations are held (Residual term up to 1 year)	0 (0)	1 (1)
Miscellaneous assets (Residual term up to 1 year)	69 (22)	129 (107)
Deferred charges (Residual term up to 1 year)	9 (0)	13 (13)
Total (Residual term up to 1 year)	78 (22)	143 (121)

Other receivables and miscellaneous assets are shown at their full face value. Any risks associated with them are covered by valuation allowances.

Accounts receivable included in miscellaneous assets are as follows:

€ million	Dec. 31, 2000 Total	Dec. 31, 2001 Total
Accounts receivable from suppliers	8	11
Claims for tax refunds	15	24
Deferred compensation trust fund	10	16
Derivative financial instruments	0	15
Insurance claims	4	6
Securities held on deposit	2	1
Amounts receivable from employees	4	5
Payments made on account	2	2
Residual amounts receivable from Henkel KGaA arising from the purchase of the Group	0	31
Sundry	24	18
Total	69	129

(8) Liquid funds/Marketable securities

€ million	Dec. 31, 2000	Dec. 31, 2001
Liquid funds	18	196
Marketable securities	0	1
Total	18	197

Marketable securities totaling € 1 million are valued at quoted market prices. Price movements are recognized in the statement of income under financial items.

(9/10) Shareholders' equity and minority interests

The equity of the Cognis Group excluding minority interests after finalization of the new Group capital structure is € 131 million.

The share capital of Cognis GmbH is € 25 million. On November 30, 2001, the shareholder of Cognis GmbH paid in an additional contribution of € 150 million, which was allocated in full to the capital reserves of the Company. Shown in the IAS reserve are changes, recognized in equity, in the fair value of the interest rate hedging instruments arising from the first-time application of IAS 39 "Financial Instruments: Recognition and Measurement". The differences in the annual financial statements of the foreign companies arising from currency translation are shown under a separate equity heading.

Shareholders' equity at January 1, 2001 includes the share capital of Cognis Deutschland GmbH (now Cognis Deutschland GmbH & Co. KG) amounting to € 10 million, reserves amounting to € 648 million and a net profit for the year of € 14 million.

Minority interests comprise mostly partners' shares in a number of companies, primarily in Asia.

Changes in the shareholders' equity and minority interests between January 1, 2001 and December 31, 2001 are shown in the table below. For changes in shareholders' equity, please refer to "Purchase of the Group," page 56.

€ million	Shareholders' equity excl. minority interests	Minority interests	Shareholders' equity incl. minority interests
At January 1, 2001	672	57	729
Net earnings January 1 – November 30, 2001	75	12	87
Distributions	0	-6	-6
Currency translation factors	18	0	18
Capital increases	85	0	85
At November 30, 2001	850	63	913
Set-off against purchase price	-850	0	-850
Net deficit, December 2001	-25	0	-25
Distribution	0	-3	-3
Capital increases	150	0	150
IAS 39 reserve	4	0	4
Translation differences	2	0	2
At December 31, 2001	131	60	191

(11/12) Provisions for pensions and similar obligations/Other provisions

Changes € million	Jan. 01, 2001	Special circs.	Utilized	Released	Allocated	Translation differences	Dec. 31, 2001
Provisions for pensions and similar obligations	454	81	32	1	46	5	553
Tax provisions	21	6	14	0	15	0	28
Sundry provisions	125	14	99	1	147	0	186
Total provisions	600	101	145	2	208	5	767

The "Special Circumstances" column shows changes in the composition of the Group and the effects of the revaluations implemented in relation to the purchase of the Group.

Employees of the Cognis Group have different forms of retirement benefit plan depending on the legal, financial and tax regulations in each country.

Provisions for pensions and similar obligations have been calculated using the projected unit credit method. This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account.

For Germany, the calculation remains based on trends of 3.0% for wages and salaries, 1.5% for retirement benefits, and a discount rate of 6.0%. The provisions in the USA were calculated on trends of 5.5% for wages, salaries and retirement benefits, and a discount rate of 7.5% (previous year 7.5%). In other countries, the equivalent factors depend on local conditions in the country concerned. With the purchase of the Group, the provisions for pensions have been recognized at their fair value in accordance with IAS 22.

**Breakdown of pension and similar obligations
€ million**

	Germany	USA	Rest of world	Dec. 31, 2001
Present value of obligations not covered by fund assets	323	141	10	474
Present value of obligations covered by fund assets	2	261	24	287
Present value total	325	402	34	761
Market value of fund assets	2	185	21	208
Provisions for pensions and similar obligations	323	217	13	553

The costs arising from pensions and similar obligations amounting to € 18 million (previous year: € 20 million) have been charged in pension costs (see also Note 32 below) and the amount of € 28 million (previous year: € 23 million) for the interest component has been charged in the financial items (see also Note 27 below).

The Sundry Provisions are in respect to identifiable and estimable liabilities toward third parties. They are costed in full and discounted to the balance sheet date if they include interest.

The Tax Provisions and Sundry Provisions have been valued on the basis of a best estimate of the level of obligations likely to accrue. The main items included in Sundry Provisions underwent the following changes in fiscal 2001:

€ million	Jan. 1, 2001	Special circs.	Utilized	Released	Allocated	Dec. 31, 2001
Bonus payments to employees	34	4	38	0	39	39
Costs of restructuring	9	1	10	0	23	23
Environmental protection measures	19	0	13	0	13	19
Commission and bonuses	9	0	9	0	15	15
Vacation bonus obligations	9	0	8	1	9	9
Anniversary bonus obligations	7	0	1	0	1	7
Litigation risks	4	0	3	0	4	5
Anticipated losses related to incomplete contracts	1	0	1	0	4	4
Others	33	9	16	0	39	65
Total	125	14	99	1	147	186

The "Special Circumstances" column shows changes in the composition of the Group and exchange rate fluctuations.

(13) Provisions for deferred tax liabilities

The amounts under this heading are in respect to differences between valuations in the balance sheet of the Cognis Group and the tax base used by the individual companies included in the consolidation (see also Note 28 below).

(14) Borrowings

This heading includes all interest-bearing obligations of the Cognis Group outstanding at December 31, 2001.

The main components under this heading are as follows:

Of the balances outstanding from the previous year, € 404 million had a residual term of up to one year, € 18 million (incl. leasing commitments of € 11 million and other loans of € 7 million) had a residual term of one to five years and € 35 million (incl. leasing commitments of € 19 million and other loans of € 16 million) had a residual term of more than five years.

The bank loans are extensively secured by real property.

The loans used to finance the purchase price are secured by assignment of fixed assets (€ 1,188 million), current assets (€ 1,047 million) and shares as collateral, and through joint and several liability of all the Group companies for these loans.

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The loans have terms ranging from 7 to 9 years, depending on the facility of the loan. The term of the Henkel KGaA loan (vendor note) is 10 years, with special redemption payments possible at any time.

The loan from Cognis HOLDING LUXEMBOURG S.A.R.L. has a term of 20 years, with redemption payments possible at any time during the term.

The other financial liabilities disclosed as at December 31, 2000, are toward companies in the Henkel Group.

€ million	Dec. 31, 2000				Dec. 31, 2001 Total
	Total	Residual term			
		more than 5 years	between 1 and 5 years	up to 1 year	
Bank loans					
Loan for financing purchase price	0	877	278	25	1,180
Less: Financing costs	0	-25	-48	-12	-85
Current bank balances	38	0	0	23	23
	38	852	230	36	1,118
Other financial liabilities					
Subordinated loans					
Vendor note, Henkel KGaA	0	352	0	0	352
Loan from Cognis Holding Lux.	0	332	0	0	332
Leasing commitments	31	17	11	1	29
Others	388	0	0	0	0
	419	701	11	1	713
Total	457	1,553	241	37	1,831

(15) Trade accounts payable

The amounts under this heading relate to trade accounts payable to third parties. They are shown at their full face value or, where appropriate, in accordance with the higher amount repayable. All the liabilities under this heading are due for payment within one year.

(16) Other liabilities

€ million	Dec. 31, 2000 Total	Dec. 31, 2001 Total
Liabilities in respect of taxation (Residual term up to 1 year)	22 (22)	10 (10)
Liabilities in respect of social security (Residual term up to 1 year)	5 (5)	6 (6)
Sundry liabilities including deferred income (Residual term up to 1 year)	65 (65)	73 (73)
Total	92	89
(Residual term up to 1 year)	(92)	(89)

The Sundry Liabilities include the following:

€ million	Dec. 31, 2000	Dec. 31, 2001
Liabilities toward employees	27	33
Taxes and social security payments for employees	4	8
Commission payable	5	5
Credit balances on debtors' accounts	3	2
Advance payments received	1	1
Various other liabilities	25	24
Total	65	73

(17) Contingent liabilities

Contingent liabilities existed for:

€ million	Dec. 31, 2000	Dec. 31, 2001
Bills and notes discounted	3	2
Liabilities under guarantee and warranty agreements	0	4
Total	3	6

No liability reserves were formed for the above contingent liabilities as the risk of loss was considered to be low to improbable.

(18) Other financial commitments

The amounts shown are nominal values.

Payment commitments under rent, leasehold and leasing agreements are shown at the total amount payable up to the earliest date when they can be terminated.

€ million	Dec. 31, 2000	Dec. 31, 2001
Payment commitments under rent, leasehold and leasing agreements	90	59
Order commitments, property plant and equipment	83	10
Order commitments, inventories	86	147
Total	259	216

Notes to the Statement of Income

(19) Sales

A breakdown of sales by segment and geographical region is shown in the above summaries contained in the segment reporting section.

(20) Cost of sales

The manufacturing costs of products sold and the purchase costs of merchandise sold are shown under this heading.

In addition to the costs directly attributable such as materials, labor and energy costs, these also include overhead (including depreciation).

(21) Marketing, selling and distribution costs

These include the costs of the marketing organization, distribution, advertising and market research, and applications engineering and advisory services for customers, as well as amounts written off from accounts receivable.

(22) Research and development costs

This heading comprises the costs of research and of product and process development. Research and development costs are expensed in full as incurred because they do not meet the criteria for recognition as an asset as set out in IAS 38 "Intangible Assets".

(23) Administrative expenses

These encompass personnel and non-personnel costs of the administration departments and miscellaneous taxes.

(24) Other operating income

€ million	2000	2001
Gains from disposal and write-ups of fixed assets	3	5
Income from release of provisions	2	1
Income from release of bad debt reserves	1	1
Other operating revenue	31	27
Total	37	34

Other Operating Revenue includes other income not relating to the period under review, insurance claims, foreign exchange gains from operating activities, and refunds. They also include an amount of €7 million as income from Cognis Mexico generated by service agreements with companies of the Henkel Group.

(25) Other operating expenses

The other operating expenses amounting to €24 million include amounts provided for services rendered to customers under guarantee and customer goodwill, for leasehold payments, and for foreign exchange losses incurred in connection with operating activities.

(26) Restructuring costs

This heading includes the expense of severance payments and early retirement plans and cost of plant or business closures either already effected or approved and announced. The total cost for fiscal 2000 and fiscal 2001 is made up as follows:

€ million	2000	2001
Severance payments	7	28
Cost of closures or production relocation including unscheduled depreciation	7	8
Total	14	36

(27) Financial items

Net income from participations

€ million	2000	2001
Participations	2	25
Total	2	25

Net interest expense

Interest and similar income	9	13
Other financial income	1	7
Interest charges payable to third parties	-42	-57
Interest element of amounts allocated to pension provisions	-23	-28
Other financial charges	-6	-14
Total	-61	-79

Financial items (net)	-59	-54
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The net income from participations includes proceeds amounting to €24 million arising from the sale of the joint venture San Nopco Ltd., Japan.

(28) Taxes on income

Tax breakdown		
€ million	2000	2001
Current taxes	75	64
Deferred taxes	-22	-6
Total	53	58

(29) Minority interests

The amounts shown here represent the share of profits and losses attributable to other shareholders.

€ million	2000	2001
Attributable profits	11	13
Attributable losses	-2	-1
Total	9	12

(30) Depreciation and amortization expense

€ million	2000	2001
Scheduled depreciation and amortization on property, plant and equipment and intangible assets	125	136
Unscheduled depreciation and amortization on property, plant and equipment and intangible assets	6	8
Total	131	144

Anticipated long-term impairments that go beyond the reduction in value due to normal usage are accounted for by unscheduled write-downs. In accordance with IAS 36, "Impairment of Assets," such losses in value are determined on the basis of comparisons with the present value of the estimated future cash flows to be derived from using the asset.

(31) Cost of materials

€ million	2000	2001
Cost of raw materials and supplies and of goods purchased for resale	1,728	1,638
Cost of outside services	132	135
Total	1,860	1,773

(32) Payroll costs

€ million	2000	2001
Wages and salaries	407	417
Social security contributions and social assistance	87	89
Pension costs	20	18
Total	514	524

(33) Employee numbers

The annual average number of employees (excluding trainees, apprentices and work-experience students) was as follows:

	2000	2001
Production	5,429	5,265
Marketing, sales and distribution	1,494	1,389
Research, development and applications engineering	869	943
Administration	1,346	1,484
Total	9,138	9,081

Report of Auditors

The fully expanded version of the combined financial statements of Cognis GmbH prepared by us as at December 31, 2001 is filed in our offices. These combined 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 combined financial statements prepared by Cognis GmbH for the period ended December 31, 2001, consisting of the balance sheet as of that date and the related statements of income, changes in shareholders' equity and cash flows for the period ended December 31, 2001 and notes to the financial statements. The preparation and content of the combined financial statements in conformity with International Accounting Standards (IAS) are the responsibility of the management of Cognis GmbH. Our responsibility is to express an opinion based on our audit on the combined financial statements.

We have conducted our audit of the combined financial statements in accordance with German audit regulations and the standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) generally accepted in Germany, having due regard also for International Standards on Auditing (ISA). Those standards require that we plan and perform the audit so as to obtain reasonable assurance about whether the combined financial statements are free of material misstatements. Knowledge of the business activities and of the economic and legal environment in which the Cognis Group operates, together with the potential for possible errors, are taken into account in the determination of audit procedures. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in combined financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by management, as well as evaluating the overall presentation of the combined financial statements. We believe that our audit provides a reasonable basis for our opinion.

With the exception of the following qualification our audit has not given rise to any reservations: In preparing the combined financial statements, the management of the parent company Cognis GmbH did not apply IAS 39 Financial Instruments: Recognition and Measurement insofar as the standard relates to foreign exchange derivatives. Management has not completed the process of evaluating the impact that will result from adopting this standard and accordingly is unable to disclose the impact on the financial result of the Cognis Group and its results of operations for the period ended December 31, 2001.

Except for the qualification discussed above, in our opinion the combined financial statements give a true and fair view of the net assets, financial position and results of operations of the Cognis Group and of its cash flows for the year under review and comply with International Accounting Standards.

Our audit, which included an examination of the Group management report for the period ended December 31, 2001 prepared by the management, has revealed no reservations other than those discussed above. In our opinion the Group management report gives a true picture of the Group's position overall and a fair representation of the risks and uncertainties that may affect its future performance.

Corporate Management

At November 30, 2001, Cognis B.V., Roermond, Netherlands, was the controlling company of the Cognis Group and was governed by the following corporate management bodies.

Supervisory Board (until Nov. 30, 2001)

Dr. Ulrich Lehner
Chairman of the Management Board and CEO of Henkel KGaA

Dr. Jochen Krautter
Vice Chairman of the Management Board and CFO of Henkel KGaA

Dr. Simone Bagel
Scientist at the University of Bonn

Dr. Uwe-Ernst Bufe
Former Chairman of the Board of Management and CEO of Degussa Hüls AG

Konstantin von Unger
Senior Vice President of Sportal Ltd., UK

Gerrit Woeste
Managing Director of R. Woeste Group

Winfried Zander
Chairman of the Works Council of the Joint Operation of Henkel KGaA and Cognis Deutschland GmbH

Management Board (until Nov. 30, 2001)

Dr. Harald Wulff
Chief Executive Officer

Dr. Paul Hövelmann
Executive Vice President
Oleochemicals
Asia-Pacific Region

Dr. Antonio Trius
Executive Vice President
Care Chemicals
North America Region

Dr. Jochen Heidrich
Executive Vice President
Organic Specialties
Europe Region

Dr. Michael Schulenburg
Executive Vice President
Cognis Production Worldwide
and General Manager
Cognis Deutschland GmbH

Joachim Söhngen
Executive Vice President
Chief Financial Officer
Latin America Region

Effective Dec. 1, 2001, the controlling company of the Cognis Group is Cognis GmbH.

Management Board (as at December 31, 2001)

Dr. Antonio Trius
Chief Executive Officer

Dr. Helmut Heymann
Executive Vice President
Chief Administration Officer

Joachim Söhngen
Executive Vice President
Chief Financial Officer

A Supervisory Board is to be formed at Cognis Verwaltungs-GmbH in 2002 in accordance with Germany's Codetermination Law.

Management Group

Affiliated Companies

Anthony Popper
Australia

Gerd Fabritius
Thailand

Kurt Rihs
Taiwan

Manuel Zerwes
China

Raymond Yap
Malaysia

Enda Quigley
Ireland

Juan-Carlos Figueroa
Mexico

Rubens-Paulo Becker
Brazil, Argentina

Jens-Axel Kähler
UK
Norway
Netherlands

Brian Hoey
South Africa

Karl-Heinz Willemsen
Indonesia

Ken Bodendistel
Canada

Pierre Renaud
France

Jorge Guixá
Spain

Robert Betz
USA

Ferit Erözlü
Turkey

Gerhard Schlosser
Japan

Franco Cuciti
Italy

Dr. Michael Schulenburg
Düsseldorf, Germany

Dr. Ullrich Reckert
Illertissen, Germany

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 brandnames of Cognis or of companies of the Cognis Group.

Chemical and technical terms

Acrylate Salt or ester of acrylic acid. Owing to the structure of acrylates – they possess a so-called double bond – they can be effectively polymerized, i.e. combined into long molecule chains.

Antioxidants Chemical compounds which prevent an unwanted reaction with oxygen (oxidation). In health-aware nutrition, antioxidants such as vitamin E or carotene play an important role as they can protect the organism against premature aging processes and degenerative diseases. Moreover, foods can also be kept fresher for longer through the use of natural-source antioxidants.

Compound A complete mixture or combination of various substances in which the properties of the component substances are combined. Compounds offer numerous advantages for industrial manufacturing processes. For example, the use of such intelligent starting products reduces the manufacturing or processing requirement as well as increasing production reliability. Furthermore, the quality of the end product remains at a constantly high level.

Derivatives From the Latin “derivare”, to derive. Derivatives are chemical compounds which 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 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.

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 basestock for numerous chemical products.

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 sterols (sterines). 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 which is 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.

Closing The term “closing” describes the moment in time of legal transfer to a new owner (following the signing of the contract and approval by the anti-trust authorities).

Due diligence The careful examination of an enterprise performed by an investor prior to the purchase of shares. The due diligence procedure provides an important basis for the investor to decide on whether or not he wishes to invest in the company concerned, and also possibly at which price.

EBIT “Earnings before interest and taxes” The EBIT figure is one of the key indicators for the economic performance of an enterprise. It is calculated by deducting all operating costs (e.g. raw material input, wages and salaries, marketing expenses and also depreciation and amortization) from sales revenue.

IAS rules IAS stands for “International Accounting Standards” and, when cited, means that the financial statements and balance sheet of a company have been drawn up in accordance with the rules which have now become standard in international finance. The international harmonization of the various national standards has meant that it is now possible to analyze and compare more accurately the performance and financial position of companies around the world.

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.

Peptides Compounds formed from amino acids. This generic term includes numerous plant-based active ingredients, toxins and hormones.

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 which 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 brandnames (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.