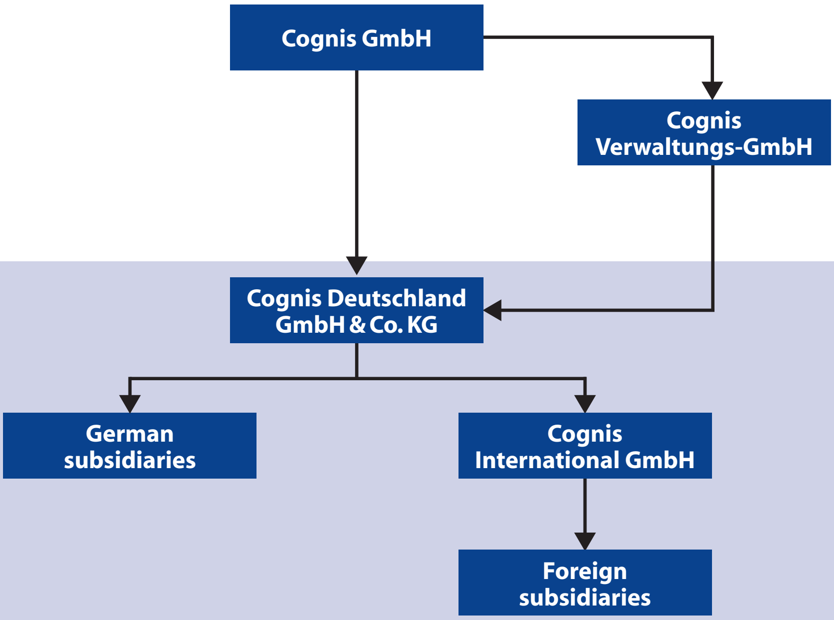
COGNIS ANNUAL REPORT

2001

Management Report



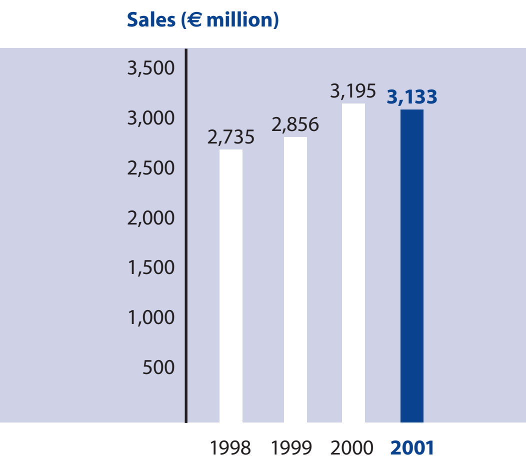
1. New ownership

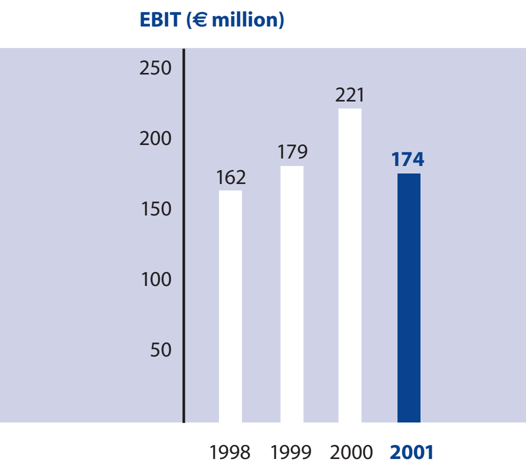
In 1999, the chemicals business sector of Henkel KGaA was converted into a legally independent entity under the name Cognis. The process of creating a completely autonomous group of companies was then completed in 2001 with the acquisition, effective November 30, 2001, of the Cognis Group by a consortium of investment funds advised by Permira, Goldman Sachs and Schroder Ventures Life Sciences. This provides Cognis with more scope, enabling it to develop with greater strategic freedom than would have been possible within the confines of the Henkel organization. This applies particularly in relation to intensifying cooperation with Cognis' global customers and implementing measures for the promotion of growth and profitability. Naturally, we will continue to maintain close commercial relationships with Henkel as our largest individual customer. Within this context, a number of long-term contracts have been concluded on a worldwide basis in order to effectively regulate the supply of products and the purchase of services.

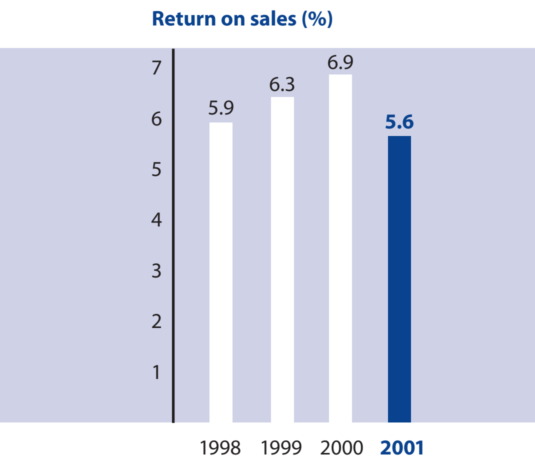
The success of the sale also shows that, in less than two years, Cognis has acquired an outstanding position in the global chemicals business. We feel also that the Company is now well equipped both structurally and strategically for further future success.

The purchase price was financed by equity, subordinated loans (i.e. with waiver of priority on the part of the shareholders and the seller) and by debt. In November 2001, Cognis received for the first time a credit rating from Moody's and Standard & Poor's in respect of credit facilities made available to Cognis Deutschland GmbH & Co. KG and other subsidiaries amounting to € 1.6 billion. Moody's gave Cognis a "Ba2 Stable" grade, while the Standard & Poors rating was "BB". These outstanding endorsements for a leveraged buyout reflect the stability of a business portfolio based on a high proportion of customers from consumer-related and non-cyclical industries, our high degree of regional and product diversification, and also our leading global position in the oleochemicals business.

The new Group structure of Cognis has been in existence since November 30, 2001 and comprises Cognis GmbH as the new controlling company of the Cognis Group and the limited partner in Cognis Deutschland GmbH & Co. KG (see chart). The shares in Cognis GmbH are held by COGNIS HOLDING LUXEMBOURG S.A.R.L. which is advised by Permira, Goldman Sachs and Schroder Ventures Life Sciences. The general partner in Cognis Deutschland GmbH & Co. KG is Cognis Verwaltungs-GmbH. Cognis Deutschland GmbH & Co. KG contains our German operative business, is the international management HQ and performs other Group functions such as the financing of foreign subsidiaries through intragroup loans, and also international research and development activities. Cognis Deutschland GmbH & Co. KG also directly holds the shares in the German subsidiaries, and indirectly holds the shares in the foreign subsidiaries via Cognis International GmbH.







2. Cognis Group reports solid business performance despite cyclical downturn

At € 3,133 million, the Cognis Group achieved a sales figure in fiscal 2001 that was only just below the value for 2000 (€ 3,195 million) in spite of a difficult economic climate in the second half of the year and the 11-month duration of the sale process. The segmental contributions read: Oleochemicals € 1,099 million, Care Chemicals € 837 million and Organic Specialties € 1,171 million. Sales amounting to € 26 million included in Other Activities essentially relate to contract manufacturing and services provided to Henkel.

In regional terms, the reduction in sales (–6 %) reported by the companies operating in North America as a result of the prevailing cyclical difficulties there were only partially offset by growth in Europe (+1 %). Latin America and Africa remained stable at the level of the previous year, while sales in Asia-Pacific fell by 5 %.

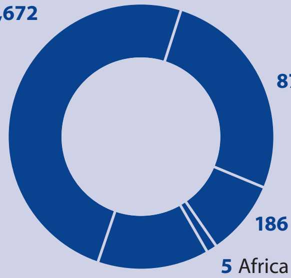
Our acquisitions and divestments strategy during the year under review was primarily aligned to the further expansion of our Care Chemicals activities and a general streamlining of our product portfolio. With the acquisition of Laboratorios Dr. Vinyals S.A., Spain, we have succeeded in adding the field of botanic extracts to our Care Chemicals segment. In addition, we also acquired in fiscal 2001 the remaining shares in our joint venture Primacare S.L. in Spain, which concentrates on specialty products for the cosmetics industry. In South Africa, we took over the remaining 50 % of the shares in Cognis South Africa Pty. Ltd. from our partner Industrial Partnerships Investment Ltd. in order to be able to operate more flexibly in the market and to facilitate the introduction of our own corporate identity. Toward the end of the financial year, we acquired in France the shares in the company Biosoph Laboratories S.A.S., which will strengthen our Organic Specialties segment through the introduction of new product technologies. By contrast, in May 2001 we sold our shareholding in the joint venture San Nopco Ltd. in Japan which, following the divestment of our paper auxiliaries business in 1999, no longer fitted in with our portfolio. The former partner in the joint venture, Sanyo Chemical Industries, took over the shares in full. In Germany, we sold our business involving phosphonates (HDEP) including the brand Turpinal to Solutia Inc. effective December 1, 2001. Our company in Iran remained with Henkel following the Cognis sale, while the 20 % shareholding in Cognis Iberia previously acquired by Henkel from Clorox was transferred to the Cognis Group.

Acquisitions and divestments contributed a net 0.1 % to total sales. Sales from our established businesses fell by 2.4 %, while foreign exchange differences increased sales by 0.4 %.

Sales by region

€ million	2000	2001
Total	**3,195**	**3,133**
Europe	1,657	**1,672**
North America	937	**879**
Latin America	186	**186**
Africa	5	**5**
Asia-Pacific	410	**391**

Sales by region (€ million)



3. Positive developments in recurring EBIT

In fiscal 2001, the Cognis Group recorded an EBIT figure of € 174 million (previous year: € 221 million) which was significantly affected by exceptional items. The return on sales including exceptional items fell from 6.9 % in 2000 to 5.6 % in 2001.

Excluding exceptional items, Cognis was once again able to exceed its earnings figure from the previous year. The very positive EBIT performance of our Care Chemicals business, taken on a comparable basis, confirms the viability of the strategy pursued in that segment. The gratifying growth achieved in the case of our Primary Surfactants served to offset the weaker business results reported by Oleochemical Raw Materials which declined particularly in the second half of the year, and also the downturn in glycerin prices. In the case of Organic Specialties, the cyclical downturn adversely impacted our 2001 performance, especially in the industrial markets. In regional terms, our business was sustained primarily by the good revenue situation of our European companies and the stable results reported by our Asian companies.

Particular mention should be made of certain special influences and one-off effects that limit comparability with the previous year. For example, at the beginning of fiscal 2001 Cognis initiated a number of restructuring measures, primarily in the USA. We were thus able to respond early in countering the downturn in the economy as it developed. The resultant restructuring charges reduced earnings by a total of € 36 million. In the USA, we also decided to discontinue a product line in the Nutrition & Health unit, which, as a result of unscheduled write-downs on licenses and on related inventories, reduced the EBIT figure by € 12 million. Within the framework of an existing put option, Henkel transferred to Cognis its Hoboken site in the USA at which products are manufactured on behalf of Primary Surfactants, Specialty Surfactants and Coatings & Inks. We have estalished provisions amounting to € 3 million to cover possible environmental risks. In Spain, we sold the site at Les Fonts de Terrassa to Nopco Paper Technology and transferred the textile auxiliaries production located there to Castellbisbal.

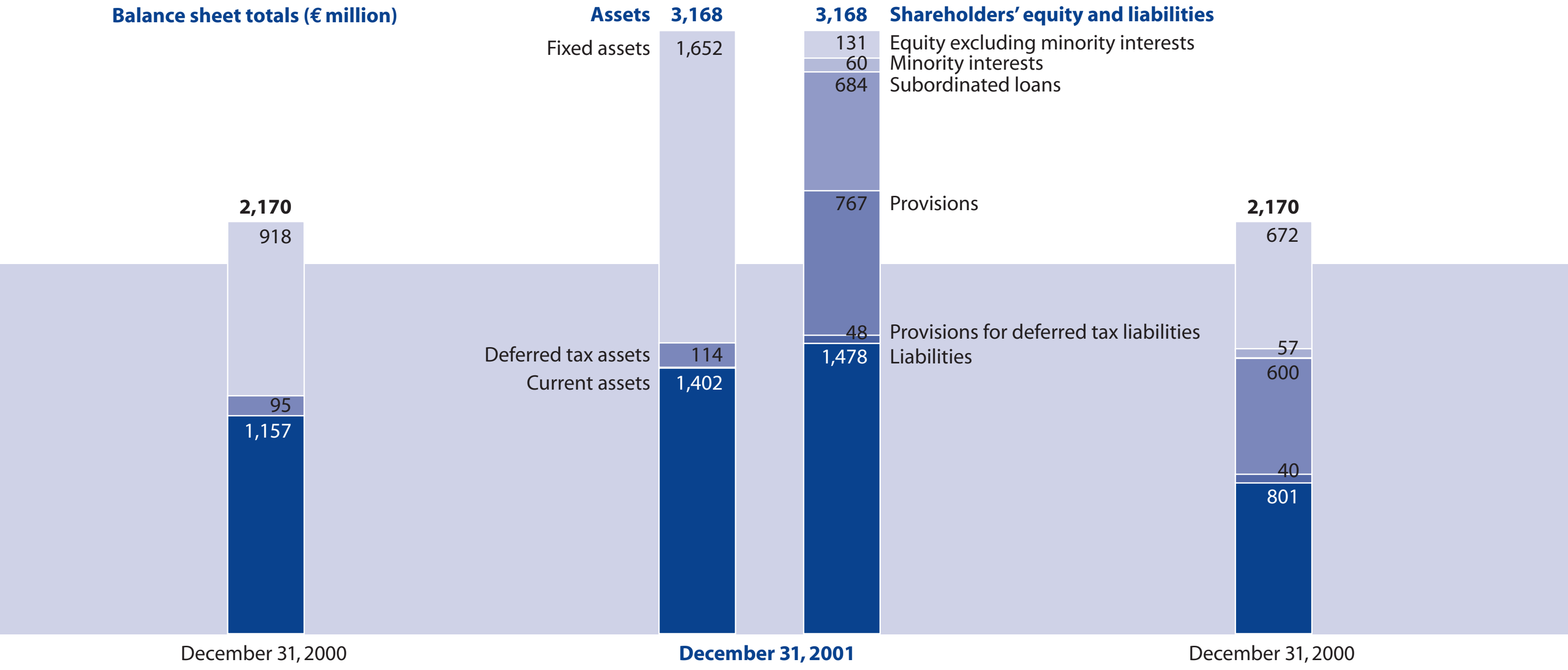
The currency crises in Turkey and Argentina impacted the EBIT figure. To cover the effects of the currency devaluation expected to take place in Argentina, we established provisions amounting to € 4 million. The exceptional items also include write-downs on the goodwill and similar assets arising in the month of December (€ 10 million) as a result of the purchase of the Cognis Group, and other charges related to this transaction (€ 11 million). Acquisitions and divestments reduced the EBIT figure by around € 1m.

The sales figures of the segments and subsegments are only comparable with the previous year's figures to a limited extent as the former divisions have been restructured.

The result from financial items improved by € 5 million to a deficit of € 54 million. The gain from the sale of our stake in the San Nopco Ltd. joint venture in Japan increased income by € 24 million. The significant increase in borrowings which occurred after the closing on November 30 led to a rise in the interest expense from € 42 million in 2000 to € 57 million in 2001.

Earnings before tax amounted to € 120 million. The tax charge rose from € 53 million to € 58 million. The tax rate amounted to 48 % (previous year: 33 %). This increase is due particularly to the fact that, through the purchase of the Cognis Group, tax losses in the USA could not be carried forward in full.

Consolidated net earnings of the Cognis Group for 2001 amounted to € 62 million, representing a decrease compared with the previous year due essentially to the restructuring programs introduced and other special charges.



It is the declared objective of the investors to ensure the long-term development of the Company as a going concern. Existing financial resources are being invested in the further expansion of the business and for the amortization of debt and borrowings.

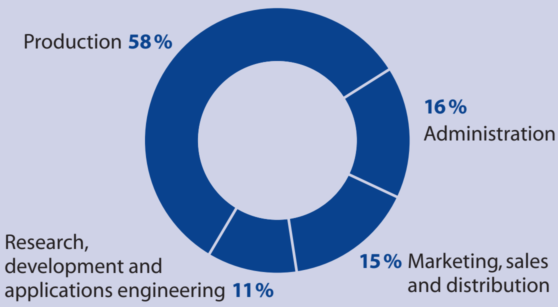
4. Stable cash flow pattern

The inflow of funds from operating activities increased slightly compared with the previous year – from € 233 million to € 234 million. A lower cash flow figure was counterbalanced by a smaller requirement for working capital as compared with the previous year. Cash outflow from investing activities (€ 94 million) fell significantly as a result of the proceeds from the sale of the participation in San Nopco Ltd. (Japan) amounting to € 29 million. The higher level of capital expenditure in property, plant and equipment is primarily attributable to the purchase of the Hoboken site in the USA (€ 8 million). The cash outflow from financing activities fell from € 104 million in the previous year to € 96 million in 2001 as no dividend was paid out in the year under review. On the other hand, interest and other financial charges increased from € 45 million to € 68 million.
The purchase price including costs in connection with the acquisition of the Company, amounting to € 1,510 million, was financed by borrowings, equity funds of the investors and an increase in the capital by Henkel prior to completion of the transaction. This has resulted in a cash surplus of € 135 million.

5. Significant increase in balance sheet totals resulting from purchase of the Cognis Group

The balance sheet totals increased to € 3,168 million as a result of the purchase of the Cognis Group. On the assets side, the transaction resulted in an increase in goodwill and also in a revaluation particularly of the fixed assets to their fair value. The liabilities side is a reflection of the financing of the purchase price by means of equity, subordinated loans (i.e. with waiver of priority on the part of the shareholders and the seller) and by debt. Bank loans at Cognis as at the end of fiscal 2001 amount to € 1,118 million, these having been extensively provided within the framework of a senior facility agreement involving various international banks. The shareholders granted a subordinated loan amounting to € 332 million including accumulated interest. To provide further financing of the purchase price, Henkel granted Cognis a vendor note (subordinated loan) amounting to € 352 million (including accumulated interest). The shareholders' equity together with subordinated loans in respect of shareholders and Henkel amounts to € 876 million. The resultant equity ratio is 28%.
Changes in the Group only had a minor influence on the balance sheet totals. Newly incorporated within the group of fully consolidated companies was Laboratorios Dr. Vinyals S.A., Spain, acquired during the first half of the year, and Primacare S.L. of Spain that was treated during the previous year as a participation. Cognis Iran was not transferred, remaining instead with Henkel.

Workforce structure

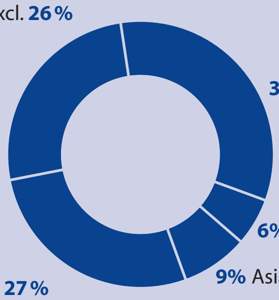


6. Slight decrease in employee numbers
At December 31, 2001, the workforce of Cognis worldwide numbered 9,065 employees (excluding trainees etc). Compared with the previous year (9,141), this represents a decrease of 76. In Europe, Cognis experienced a slight increase in its payroll, due predominantly to the acquisition of Laboratorios Dr. Vinyals S.A., Spain with its 90 employees, and a rise in employee numbers in Germany. In Ireland, 58 employees providing services to Henkel were included in the Cognis payroll for the first time as they are legally employed by Cognis. In North America, there was a reduction in force of 249 due predominantly to restructuring measures implemented in the USA. We have also reduced the payroll in Latin America through restructuring measures introduced in response to the tense economic situation currently prevailing in that region. In Asia, on the other hand, there were additions to the number of employees at the Group.

7. Investments in new technologies
Capital expenditure at Cognis in fiscal 2001 amounted to € 117 million. This corresponds to an increase of € 9 million compared with the previous year. The rise is mainly attributable to the acquisition of the Hoboken production site in the USA which Henkel transferred to Cognis prior to the closing of the Cognis sale, so exercising its put option (€ 8 million). Hoboken was not legally transferred to Cognis at the time of the carve-out of the chemicals business sector of Henkel. The regional focal points of our investment activities reflected the prevailing business structure in Europe and North America. In addition, however, the expansion in business in Asia-Pacific was supported by growth-oriented capital expenditures.
These investments have been specifically geared to the expansion of new technologies that are expected to contribute to the further growth of the Cognis Group. Capacities were also expanded in existing product areas in order to further consolidate and augment the already strong position of Cognis in the marketplace. In Germany, a high-pressure plant for the extraction of fatty alcohols was revamped leading to a substantial increase in production capacity. A new facility for the fractioning of fatty acids is expected to facilitate the expansion of our businesses in those market segments characterized by high product specifications. In the USA, we relocated and improved our production facility for the manufacture of photomers. Photomers are ink products used in the printing and coating of metals, paper, wood and plastics.

8. Quality and environmental management activities expanded
During fiscal 2001 we developed and agreed a number of new concepts in close collaboration with our most important international customers. The introduction of a "Global Quality Charter" in relation to one major European client means that in the future we will be offering standardized products on a worldwide basis (multi-site products). This requires us to harmonize the product names, specifications and analysis methods. Aside from its quality and environmental management system registrations to ISO 9001 and ISO 14001 respectively, Cognis has also begun to implement internal SHE (Safety, Health, Environment) compliance audits at selected sites. These involve applying the strictest of tests to the sites to check that they do indeed comply with the specifically imposed standards. Particular priority is placed on plant and industrial safety. Audits are also carried out to determine whether instituted measures, activities and programs are likely to achieve the desired results. Within a three-year plan, this surveillance system is to be rolled out to encompass all the sites of the Company, with both internal and external experts being employed to identify and eradicate all the weaknesses.

Capital expenditure by region



R & D / Technical Service costs

€ million	2000	2001
Research and Development	67	**73**
Technical Service	45	**44**
Total	**112**	**117**

9. Investment in research increased, innovations successfully launched

Our expenditure on research and development rose from € 67 million in 2000 to € 73 million in 2001. This latter figure corresponds to a ratio of 2.3 % of sales (previous year: 2.1 %).

Cognis awarded innovation prizes to three selected teams of employees from the USA, Germany and France. Forty-one projects from eight countries were short-listed for the Company's first innovation competition. The gold award and a prize of € 25,000 went to a team from the Cognis USA sites at Cincinnati and Kankakee. This unit succeeded in creating an engineering process offering increased cost-efficiency in the manufacture of vitamin E. The silver innovation prize was awarded to the German Cognis team in Düsseldorf for the creation of a two-component skin regreasing formulation. The two substances combine to create the patented Cognis product Lamesoft® PO 65 for bodycare products offering a regreasing effect that closely imitates the natural, dermatological process. The bronze innovation prize went to the French team of Laboratoires Sérobiologiques in Pulnoy. This group developed a newly patented concept which employs special substances to inhibit the aging process in the skin. The active ingredient, tradename Parelastyl®, protects essential dermatological proteins, enhances elasticity and regulates the long-term moisture content of the skin.

Through its intensive research activities, Cognis again developed a number of highly promising innovations to commercialization in 2001:

- Plantapon® ACG 35, a mild surfactant with especially modified specifications for cosmetic applications, and two protein-based bioactive substances – Gluadin®-Soy and Nutrilan® Milk – for revitalizing tired hair were launched onto the market.
- A wastewater-free reaction process for the manufacture of conjugated linolenic acid (Edenor® ME CLA 60) was developed.
- An environmentally friendly solvent in the form of glycerin carbonate was developed and marketed under the tradename Edenor® GC.
- The pollutive emissions from diesel combustion engines can be drastically reduced by the addition of minute amounts of water. Cognis has developed an emulsifier product group which renders the added water in the diesel suitable for combustion. These new products were successfully launched onto the market under the Eumulgin® tradename.
- An environmentally friendly stabilizing system was developed for application in flexible PVC flooring products. The PVC stabilizer is marketed under the tradename Stabiol® 3281.
- Our Disponil® AFX products with their special, improved application properties for latex manufacture were introduced as technically equivalent substitutes for the ecologically controversial alkylphenol ethoxylates.

Oleochemicals: Net sales

€ million	2000	2001
Total [1]	**996**	**1,099**
Oleochemical Raw Materials	639	**610**
Primary Surfactants	252	**423**
Other [2]	105	**66**

[1] Sales transacted with Henkel were recognized under the reporting item Other Activities in 2000 but allocated to the appropriate segments in 2001.

[2] In 2001, this figure includes Other Activities of Oleochemicals plus the Silicates business.

10. Steady earnings performance at Oleochemicals despite difficult economic climate

The Oleochemicals segment is made up of the strategic business units Oleochemical Raw Materials, Primary Surfactants and Silicates (Water Glass). Previously, Primary Surfactants was combined with Specialty Surfactants in the Care Surfactants unit of the Care Chemicals division.

In fiscal 2001, Oleochemicals recorded sales of € 1,099 million. Primary Surfactants made a significant contribution to this still high revenue figure, largely offsetting the weaker sales posted in respect of fatty acids and performance monomers.

Overall, Oleochemicals profited from favorable raw material costs in respect of lauric oils, a high level of capacity utilization throughout the year and also the good market conditions that prevailed particularly during the first half of 2001. During the second half, the downturn in the US economy that followed the events of September 11 adversely affected our North American business. Within this context, volume sales and prices for fatty acids and performance monomers in the USA were particularly hard hit. In the Primary Surfactants segment there was an increase in sales volumes both to key international accounts and to local customers.

In Europe, our Oleochemicals business remained pleasingly stable until the middle of the fourth quarter. Only the glycerin business exhibited a negative trend in prices over the year, although this leveled out into a phase of stabilization in the fourth quarter. In Asia, the continuing high level of plant capacity utilization, particularly in Thailand, in conjunction with favorable raw material costs led to positive developments at Primary Surfactants. In Malaysia, too, our company was able to repeat the good performance achieved in 2000. Demand for fatty acids in Asia remained at a high level throughout the entire year.

On the procurement side, the abundant supplies of vegetable oil which prevailed over large portions of the year met with no more than average demand.

We were able to further optimize our customer focus through the expansion of our key account management system. The concept which has already been in operation at our Care Chemicals division for some years has now been extended to our Oleochemicals segment. A network of globally and regionally active key account managers has been created to provide comprehensive support services to major customers from the detergents and personal care industries, and to afford them optimum access to the worldwide production and distribution capabilities of Cognis.

Care Chemicals: Net sales

€ million	2000	2001
Total [1]	**710**	**837**
Care	443	**544**
Nutrition & Health	141	**147**
Food Technology	108	**116**
Aroma Chemicals	18	**30**
Other	0	**0**

[1] Sales transacted with Henkel were recognized under the reporting item Other Activities in 2000 but allocated to the appropriate segments in 2001.

11. Further growth at Care Chemicals

Since the beginning of 2001, the Care Chemicals segment has been made up of the strategic business units Care (comprising the former Care Specialties and the Specialty Surfactants businesses), Aroma Chemicals, Food Technology and Nutrition & Health. The two latter units were previously part of the Oleochemicals division.

In fiscal 2001, Care Chemicals recorded sales of € 837 million. All our businesses contributed to this positive development in revenues, with Aroma Chemicals and Food Technology undergoing the strongest percentage growth. On a comparable basis, the Care business reported the highest absolute growth rate. In regional terms, our strongest growth was in Europe, while our North American business suffered from a downturn in activity that became particularly noticeable in the second half of the year.

The Care unit profited from the introduction of new products in the field of specialty surfactants. The good performance of our Skin Care business in Europe, due particularly to the introduction of new product concepts, was tempered to some extent by the downturn in our North American business as compared with the previous year. In the High Care sector, the impact of the BSE crisis on our business with animal proteins was offset by progress made in activities relating to active substances and plant-based proteins.

At the Food Technology unit, gratifying increases in sales and operating profit confirmed the viability of the strategy adopted in the optimization and streamlining of our product portfolio. The negative effects of the BSE crisis on the sale of tallow-based products were thus more than offset.

The Nutrition & Health unit increased sales through acquisitions by 4 % compared with the previous year. While we were able to expand our business with natural-source vitamin E in Europe, a decline in sales was observed in the USA. In contrast, significant growth rates were achieved in respect of our phytosterols. Phytosterols are used both in the pharmaceuticals industry and as dietary nutrients. Cognis enjoys a leading market position in this field. As mentioned, the end of a strategic partnership in relation to a product line operated by the Nutrition & Health unit initially depressed performance. However, with the acquisition of Laboratorios Dr. Vinyals S.A., Spain, the activities of Nutrition & Health have been expanded to include plant extracts. Plant extracts constitute a major source of active ingredients for the healthcare sector and are increasing in importance generally. The potential applications go far beyond conventional uses in food supplements or pharmaceutical preparations; indeed, they now also extend to the development of active ingredients for the cosmetics industry and for food additives.

Organic Specialties: Net sales

€ million	2000	2001
Total[1]	**1,147**	**1,171**
Coatings & Inks	291	**315**
Plastics Technology	179	**166**
Textile Technology	274	**263**
Synlubes, AgroSolutions, Oilfield Chemicals	268	**277**
Other	135	**150**

[1] Sales transacted with Henkel were recognized under the reporting item Other Activities in 2000 but allocated to the appropriate segments in 2001.

12. Uneven business performance at Organic Specialties

In 2001 as in the previous year, the Organic Specialties segment comprised the strategic business units Coatings & Inks, Plastics Technology, Textile Technology, and Synlubes, AgroSolutions and Oilfield Chemicals. The "Other" reporting item includes our Leather and Mining Chemicals Technology businesses.

Sales at Organic Specialties in fiscal 2001 amounted to € 1,171 million. The fall in revenue as compared with the previous year was attributable in particular to a downturn in business at Plastics Technology, Textile Technology and Synlubes, reflecting the generally difficult market situation. Leather Technology was able to maintain its business activities at the level of the previous year. Our Mining Chemical Technology business performed particularly well, as did our Oilfield Chemicals unit, where we were able to significantly increase the sales figure. The results at AgroSolutions were also up on the previous year. In regional terms, business in Europe and Asia remained steady while North and Latin America were unable to hold the levels of the previous year due to the cyclical downturn. Our business in Turkey suffered from the currency crisis of spring 2001.

At the Coatings & Inks unit, steadier business performance in Europe and Latin America failed to compensate fully for the negative influences, taken on a comparative basis, arising from the downturn in economic activity in North America and Japan. In the USA, restructuring measures and product portfolio optimization activities had already been implemented in the first half of 2001. Overall, we were able to expand our market share through the introduction of new and particularly environmentally compatible products. In Japan, we sold our shares in the joint venture San Nopco Ltd., Tokyo, in full to the other former co-owner Sanyo Chemical Industries Ltd.

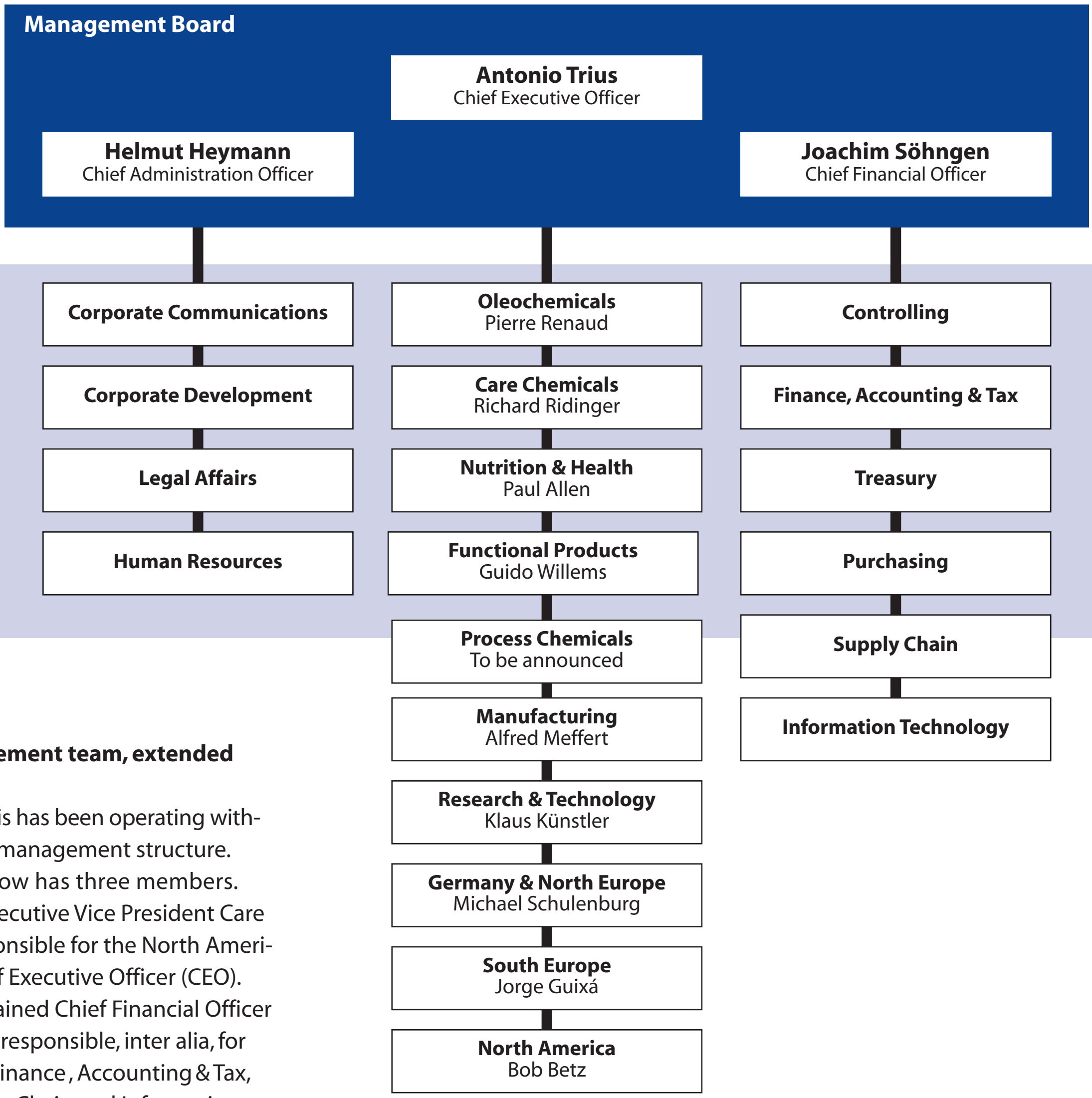
The decrease in sales at Plastics Technology is primarily attributable to the cyclical weaknesses of the automotive and construction industries. The general downturn in prices was only partially offset by the higher share of products with a high value-added component such as, for example, calcium zinc stabilizers.

Textile Technology was unable to repeat the jump in sales recorded in fiscal 2000, with the value for 2001 falling by 4.9% below the prior-year figure. In the case of our medium-sized customers in particular, overcapacity in Europe and North America resulted in a series of plant closures. In Latin America, the export business was adversely affected by stronger local foreign exchange rates, especially in Brazil and Mexico. However, business performance in China was exceptionally good; here we were able to achieve a growth rate of 7% by strengthening our local technical service capability and through the implementation of organizational changes. In Turkey, the decline in business activity which occurred during the first half year in the wake of the currency crisis was reversed as the year progressed, resulting in a significant expansion in our market share.

The Synlubes, AgroSolutions and Oilfield Chemicals unit reported an overall increase in sales versus prior year. In Oilfield Chemicals, we succeeded in gaining market shares through our environmentally friendly esters, and profited from the increase in drilling activity, particularly in the Gulf of Mexico. AgroSolutions increased sales by attracting a new customer, and succeeded in expanding its market position accordingly. Toward the end of the year, we strengthened our product portfolio in this business through the acquisition of Biosoph

S.A. of France. This has added low-toxicity defoamers to our product range which are ideal for applications in the food processing and fermentation industries. Sales at Synlubes were down on the previous year owing to the continuing weakness of the North American heavy truck industry.
In the reporting item "Other" the positive development of our business with mining chemicals (Mining Chemicals Technology) made a significant contribution to the increase in sales recorded. The results at Leather Technology remained stable, repeating the levels of the previous year.

13. Risk management
In conducting international business in the field of specialty chemicals, the companies of the Cognis Group are exposed to a number of risks which are inseparably related to their entrepreneurial activities. Cognis has implemented an internal monitoring and control system in keeping the provisions of KonTraG – § 91 (2) AktG [German Law on Corporate Governance and Transparency]. The purpose of this system is to ensure that economic difficulties and commercial problems are identified at their incipience so as to minimize the ensuing effects and secure the ongoing viability of the Company. A detailed reporting system in the individual companies and also at Group level, and the Internal Auditing department support management in recognizing risks at an early stage and in instigating the appropriate responses.
Cognis counters operational risks through a raft of measures. In the procurement field, we alleviate the effects arising from fluctuating raw material prices, particularly for coconut and palm kernel oils, through strategic procurement management geared toward optimizing cost and smoothing sudden volatilities in the market. To achieve these objectives, we implement flexible procurement strategies involving, inter alia, forward contracts. On the production side where we are reliant on highly complex manufacturing processes and production facilities, we counter the attendant risks by applying appropriate safety standards, performing regular maintenance work and ensuring the high qualification of our employees. A healthy mix of major international clients and local customers characterizes our market structure. This enables us to avoid the potentially critical effects that can emanate from the loss of individual accounts. Revenues originating from the supply of products and services to Henkel, our largest single customer, do not significantly exceed 10 % of total sales. Moreover, these activities are secured in part by long-term agreements.
We hedge against financial risks through careful interest, currency and cash management practices. The loans amounting to € 1.6 billion granted within the framework of the senior facilities agreement give rise to variable interest charges linked to developments in LIBOR (for our US dollar loans) and EURIBOR (for our euro loans). The interest risks arising from this situation have been extensively hedged through the use of interest rate swaps, caps and floors.
The identifiable risks have been adequately covered by appropriate provisions. No risks came to light in the year under review which – either individually or in the context of the overall level of risk – could endanger the continued existence of the Company.



14. Newly formed management team, extended Group structure

Since January 1, 2002, Cognis has been operating within the framework of a new management structure. The Management Board now has three members. Dr. Antonio Trius, former Executive Vice President Care Chemicals and officer responsible for the North American region, is the new Chief Executive Officer (CEO). Joachim Söhngen has remained Chief Financial Officer (CFO). In this function he is responsible, inter alia, for the functions Controlling, Finance, Accounting & Tax, Treasury, Purchasing, Supply Chain and Information Technology. Dr. Helmut Heymann, in the newly created position of Chief Administration Officer (CAO), is responsible, inter alia, for the functions Corporate Communications, Corporate Development, Legal Affairs and Human Resources. He was previously Head of Human Resources Management at Cognis.

The outgoing CEO, Dr. Harald Wulff, is to be Chairman of the future Supervisory Board of Cognis Verwaltungs-GmbH. Dr. Jochen Heidrich and Dr. Paul Hövelmann, former Executive Vice Presidents Organic Specialties and Oleochemicals respectively, have taken retirement after their many successful years in the service of Henkel and Cognis.

The realignment of our strategic business units reflects our perception of the prevailing market structures and our strategic development potential. Our business activities are to be divided in the future between five segments. Within these units, our competencies will be pooled together to even greater effect, with the decision-making processes rendered significantly more flexible. The managers responsible for the five SBUs report directly to the CEO, Dr. Antonio Trius. As from January 1, 2002, the new segmentation of the Cognis Group reads as follows:

- Oleochemicals, led by Pierre Renaud, forms the basis of Cognis' business activities involving base chemicals extracted from natural oils and fats (fatty acids, fatty alcohols, primary surfactants). Oilfield Chemicals and Silicates (Water Glass) also belong to this SBU.
- Care Chemicals encompasses basestocks and additives as well as specialty ingredients for the cosmetics, laundry and home care industries. The Key Account Management function is also allocated to this unit. Care Chemicals remains under the management of Richard Ridinger.
- Nutrition & Health: Included in this SBU are the subsegments Dietary Supplements, Pharmaceuticals & Healthcare, Food Technology, Functional Food & Medical Nutrition, and Animal Nutrition. This unit is headed by Paul Allen.

- Functional Products, managed by Guido Willems, constitutes the SBU in which Cognis utilizes its formulation know-how in order to support its customers in the optimization of their product quality and in increasing value added. The focus here lies particularly on customers from the inks and coatings, plant protection and mining industries. Also allocated to this unit is our Synlubes business (synthetic lubricants).
- Process Chemicals offers our customers from the plastics, textile, fiber and leather industries the exceptional process know-how available at Cognis. At time of printing, the director of this SBU had yet to be announced.

The Executive Committee is made up of the Management Board, the five heads of the Strategic Business Units, Dr. Alfred Meffert as Head of Production, and Dr. Klaus Künstler as Director of Research & Development. Also included on the Executive Committee are the representatives of the main regions who report directly to Dr. Antonio Trius. These are Dr. Michael Schulenburg for North Europe, Jorge Guixá for South Europe and Bob Betz as General Manager of Cognis Corp. (USA) for North America. Latin America and Asia-Pacific are represented on the Executive Committee by Joachim Söhngen and Dr. Helmut Heymann respectively.

15. Outlook for fiscal 2002

We expect business developments in 2002 to be uneven. Although during the first half year the markets, particularly in the non-consumer-aligned industries, are likely to be characterized by recessive influences emanating particularly from the USA, we anticipate that the second half of 2002 will bring an appreciable recovery. Economic developments are likely to have a greater influence on our Oleochemicals SBU, and particularly the of the Functional Products and Process Chemicals businesses, than on the Care Chemicals and Nutrition & Health units. We expect the Care Chemicals SBU to continue to perform well irrespective of cyclical developments. The commissioning of a plant for the production of phytosterols in France will help to satisfy rising demand in this area and contribute to increasing the profitability of our Nutrition & Health unit. The currency crisis that occurred in Argentina at the start of 2002 will have a negative effect on our sales figures in that country. However, the influences of the devaluation on the monetary items in the balance sheet as at December 31, 2001 have already been countered by provisions in the present annual financial statements amounting to € 4 million.

On the procurement side, we anticipate a slight rise in lauric oil prices, which we intend to offset at least partially through effective purchasing management. We also expect innovations to have a positive effect on sales in 2002 and the restructuring programs initiated in 2001 to improve operating profit. With the reorganization of our segments and with the new management team, we will be able to respond more flexibly and more quickly to market forces, thus providing the basis for successful development of the Cognis Group.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