

Consolidated Financial Statements

Page

57	Cognis Consolidated Balance Sheet
58	Cognis Consolidated Income Statement
59	Cognis Consolidated Statement of Changes in Shareholder's Equity
60	Cognis Consolidated Cash Flow Statement
61	Notes to the Consolidated Financial Statements
	Condensed Financial Statements
	General Disclosures
	Scope of Consolidation
	Accounting Policies
	Notes to the Consolidated Balance Sheet
	Notes to the Consolidated Income Statement
	Notes to the Consolidated Cash Flow Statement
	Supplementary Information
88	Report of the Independent Auditors
89	Supervisory Board and Corporate Management

Cognis Consolidated Balance Sheet

Assets

	December 31, 2003		December 31, 2002		Notes
	€ millions	%	€ millions	%	
Intangible assets	398	15.2	433	14.7	(1)
Property, plant and equipment	828	31.6	924	31.4	(2)
Investments in affiliates and other investments	1	0.0	1	0.0	(3)
Fixed assets	1,227	46.8	1,358	46.1	
Deferred tax assets	219	8.4	199	6.8	(20)
Inventories	431	16.4	484	16.4	(4)
Trade accounts receivable	450	17.2	468	15.9	(5)
Other receivables and other current assets	102	3.9	140	4.7	(6)
Cash and cash equivalents	190	7.3	299	10.1	(7)
Current assets	1,173	44.8	1,391	47.1	
Total assets	2,619	100.0	2,948	100.0	

Shareholder's Equity and Liabilities

	December 31, 2003		December 31, 2002		Notes
	€ millions	%	€ millions	%	
Equity	246	9.4	- 5	- 0.2	(8)
Minority interests	43	1.6	60	2.0	
Equity and minority interests	289	11.0	55	1.8	
Provisions for pensions and similar obligations	446	17.0	519	17.6	(9)
Other provisions	186	7.1	197	6.7	(10)
Provisions	632	24.1	716	24.3	
Deferred tax liabilities	34	1.3	43	1.5	(20)
Borrowings	1,336	51.0	1,810	61.4	(11)
Trade accounts payable	226	8.7	209	7.1	(12)
Other liabilities	102	3.9	115	3.9	(13)
Liabilities	1,664	63.6	2,134	72.4	
Total equity and liabilities	2,619	100.0	2,948	100.0	

Cognis Consolidated Income Statement

Year ended December 31	2003		2002		Notes
	€ millions	%	€ millions	%	
Sales	2,950	100.0	3,126	100.0	(14)
Cost of sales	- 2,216	- 75.1	- 2,287	- 73.2	
Gross profit	734	24.9	839	26.8	
Marketing, selling and distribution costs	- 444	- 15.0	- 459	- 14.7	
Research and development costs	- 61	- 2.1	- 76	- 2.4	
Administrative expenses	- 123	- 4.2	- 127	- 4.1	
Other operating income	75	2.5	35	1.1	(15)
Other operating expenses	- 49	- 1.7	- 20	- 0.6	(16)
	132	4.4	192	6.1	
Amortization of goodwill	- 28	- 0.9	- 9	- 0.3	(1)
Restructuring costs	- 54	- 1.8	- 41	- 1.3	(17)
Operating profit (EBIT)	50	1.7	142	4.5	(18)
Net financing costs	- 152	- 5.2	- 183	- 5.8	(19)
Profit before tax	- 102	- 3.5	- 41	- 1.3	
Income taxes	38	1.3	17	0.5	(20)
Loss before minority interests	- 64	- 2.2	- 24	- 0.8	
Minority interests	- 7	- 0.2	- 17	- 0.5	(21)
Net loss	- 71	- 2.4	- 41	- 1.3	

Cognis Consolidated Statement of Changes in Shareholder's Equity

€ millions						
	Notes	Capital reserve	Accumulated deficit	IAS 39 reserve	Currency translation differences	Consolidated equity
At January 1, 2002		150	- 25	4	2	131
Net loss 2002			- 41			- 41
Translation differences					- 71	- 71
Cash flow hedges						
- Fair value losses				- 47		- 47
- Deferred tax benefit on fair value losses				12		12
- Transfers from IAS 39 reserve to Income Statement				11		11
At January 1, 2003		150	- 66	- 20	- 69	- 5
Net loss 2003			- 71			- 71
Capital contribution		375				375
Translation differences					- 62	- 62
Cash flow hedges						
- Fair value losses				- 4		- 4
- Deferred tax benefit on fair value losses				- 5		- 5
- Transfers from IAS 39 reserve to Income Statement				18		18
At December 31, 2003	(8)	525	- 137	- 11	- 131	246

Cognis Consolidated Cash Flow Statement

Year ended December 31	2003	2002	
	€ millions	€ millions	Notes
Operating profit (EBIT)	50	142	
Income taxes paid	- 23	- 34	
Depreciation / write-ups of fixed assets	248	220	
Net gains from disposals of fixed assets	- 19	- 1	
Cash earnings	256	327	
Change in inventories	29	18	
Change in receivables and other current assets	20	37	
Change in liabilities and short-term provisions	10	- 15	
Cash flows from operating activities	315	367	
Capital expenditure on intangible assets	- 20	- 1	
Capital expenditure on property, plant and equipment	- 102	- 97	
Acquisitions	- 53	11	(25)
Proceeds from disposals of fixed assets and divestments	45	2	(26)
Cash flows from investing activities	- 130	- 85	
Dividends paid to minority shareholders	- 12	- 8	
Change in pension provisions (excluding interest element)	- 84	- 44	(27)
Repayment of borrowings	- 114	- 28	(28)
Interest and dividends received	8	11	
Interest paid and other financial charges	- 88	- 110	
Cash flows from financing activities	- 290	- 179	
Net cash flows	- 105	103	
Effect of exchange rate changes on cash and cash equivalents	- 4	- 1	
Changes in cash and cash equivalents	- 109	102	
Cash and cash equivalents at January 1	299	197	
Cash and cash equivalents at December 31	190	299	(7)

Notes to the Consolidated Financial Statements

Condensed Financial Statements

These condensed financial statements have been derived from the consolidated annual financial statements of Cognis GmbH as at December 31, 2003, which were prepared in accordance with International Financial Reporting Standards (IFRS).

General Disclosures

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

Scope of Consolidation

62 (2002: 52) entities, including subconsolidated entities, have been included in the 2003 consolidated financial statements. Their regional distribution is as follows:

Number of consolidated entities as at	December 31, 2003	December 31, 2002
North West Europe	24	18
Southern Europe, Africa	13	12
Asia-Pacific	17	15
North America	2	3
Latin America	6	4
Total	62	52

The effects of acquisitions and divestments, particularly the acquisition of the Laporte Performance Chemicals group, are further explained in Note 25 – Acquisitions and Note 26 – Proceeds from disposals of fixed assets and divestments. A list of the principal subsidiary companies is provided in Note 34.

Accounting Policies

Basis of consolidation

Entities which Cognis GmbH either directly or indirectly controls by holding more than half of the voting rights or otherwise are included in the consolidated Cognis Group financial statements, with the exception of entities that are individually and collectively highly immaterial. These exceptions are classified as investments in affiliated companies.

Entities are consolidated from the date the Group assumes effective control and are removed from the consolidation when control ceases.

Acquisitions of controlled entities are accounted for using the purchase method, according to which the acquisition cost is allocated at the acquisition date to the fair value of acquired assets and liabilities and the remainder to goodwill.

All balances, income, expenses, gains and losses resulting from transactions between Group companies are eliminated.

Foreign currency

Transactions in foreign currencies are translated to euro at the foreign exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates prevailing at the balance sheet date. The resulting foreign exchange gains and losses are generally recognized in income.

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

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

		2003	2002	2003	2002
Unit of currency	ISO code	Average rate in €		Closing rate in €	
1 British pound	GBP	1.45	1.59	1.4188	1.5373
100 Japanese yen	JPY	0.76	0.85	0.7405	0.8039
1 US dollar	USD	0.88	1.06	0.7918	0.9536
1 Malaysian ringgit	MYR	0.23	0.28	0.2089	0.2512

Goodwill and other intangible assets

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

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

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

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if, among other criteria, the product or process is technically and commercially feasible and the costs can be reliably measured. Expenditure on development activities is recognized in the income statement as an expense to the extent these criteria are not satisfied.

Capitalized development expenditures and other intangible assets are valued at cost less amortization and impairment losses. The acquisition cost of an intangible asset includes the purchase price plus all directly attributable costs incurred to prepare the asset for its intended use. Discounts and rebates are deducted in calculating the acquisition cost. Interest charges on borrowings are not included in the cost of assets.

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

Property, plant and equipment

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

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

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

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

	Years
Office buildings	33 – 40
Research, factory, workshops, stores and staff buildings	25 – 33
Production facilities	20 – 25
Machinery and distribution systems	7 – 10
Office equipment	10
Vehicles	5
Factory and research equipment	5

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

Impairment losses

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

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

Leases

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

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

Investments and other financial assets

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

Management determines the appropriate classifications of its investments at the time of purchase and re-evaluates the classifications on a regular basis. At the time of acquisition and as required by IAS 39, the Group distinguishes between financial assets that are trading, held-to-maturity, available-for-sale and loans originated by the Group. During 2003, Cognis held no material investments classified as held-to-maturity or loans originated by the Group. Financial assets classified as trading, comprised of derivative financial assets which do not qualify as cash flow hedges, are included in other current assets.

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

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

Inventories

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

Trade accounts receivable and other receivables

Trade accounts receivable and other receivables are stated at their cost less impairment losses. Receivables denominated in foreign currencies are initially valued using the exchange rate in effect on the transaction date, and then revalued using the exchange rate in effect on the balance sheet date, regardless of any foreign exchange hedging in respect of the receivables.

Specific provisions are recorded against individual accounts receivable when there are objective indications that the amount receivable may not be fully collectible. Additionally, allowances for doubtful accounts receivable are recorded based on Cognis' historical experienced credit risk.

Other receivables are stated at their nominal value less impairment losses, except derivative financial instruments and deferred compensation trust funds, which are stated respectively at fair value and present value. The carrying values of current financial assets approximate their fair values.

Derivative financial instruments

The Group adopted IAS 39 – Financial Instruments: Recognition and Measurement – on January 1, 2002. As a result, 2002 represented the first full year in which the consolidated financial statements are in compliance with this accounting standard.

The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest risks arising from operating, financing and investing activities. In accordance with its treasury policy, the Group does not hold derivative financial instruments for trading purposes. However, derivatives which do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, they are recognized at fair value. The fair value of interest instruments is based on the present value of the estimated future cash flows resulting from the instruments, as confirmed with our counterparties (exclusively banks). The fair value of forward foreign exchange contracts is determined using forward exchange rates as of the balance sheet date.

The method by which gains and losses resulting from changes in the fair value of derivatives are accounted for depends on the type of item hedged. Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized liability, a firm commitment or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognized directly in equity. The cumulative gain or loss is removed from equity and recognized in the income statement in financial result at the same time as the hedged transaction. Where a derivative is not designated as a cash flow hedge, changes in fair value are recognized immediately in financial result.

Cash and cash equivalents

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

Provisions for pensions and similar obligations

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

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

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

Other provisions

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

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

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

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

Borrowings and other liabilities

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

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

Other liabilities are carried at amortized cost. Derivative financial instruments that represent liabilities are recorded at fair value as described in the section "Derivative financial instruments".

Liabilities denominated in foreign currencies are translated at the rate of exchange prevailing at the balance sheet date.

The carrying values of current liabilities approximate their fair values.

Deferred taxes

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

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

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

Recognition of revenues and costs

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

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

Assumptions and estimates in the consolidated financial statements

Estimates and assumptions have been made in arriving at the recognition and measurement of certain items in the consolidated financial statements. The ensuing actual amounts may differ from these estimates and assumptions. The estimates relate mainly to valuation allowances against inventory, provisions for environmental and litigation risks, and the valuation of deferred tax assets.

Notes to the Consolidated Balance Sheet

(1) Intangible assets

The changes in intangible assets are as follows:

€ millions				
	Goodwill	Patents/Licenses	thereof capitalized development expenditures	Total
Cost				
At January 1, 2003	152	380	0	532
Changes in the Group/acquisitions	42	1	0	43
Additions	0	20	4	20
Disposals	-6	-11	0	-17
Translation differences	-14	0	0	-14
At December 31, 2003	174	390	4	564
Accumulated amortization				
At January 1, 2003	41	58	0	99
Changes in the Group/acquisitions	0	0	0	0
Amortization 2003	11	47	0	58
Impairment losses	17	0	0	17
Disposals	-5	-3	0	-8
At December 31, 2003	64	102	0	166
Book values				
At December 31, 2003	110	288	4	398
Book values				
At December 31, 2002	111	322	0	433

Additions include the costs of implementing uniform SAP systems on a global basis.

€ 4 million (2002: nil) of the Group's € 65 million development expenditure in 2003 was capitalized.

Impairment losses of € 17 million on goodwill were recognized in 2003. These impairment losses resulted from unfavorable raw materials input prices and fatty acid and glycerin selling prices affecting the SBU Oleochemicals, and from the weakening of the US dollar, which particularly impacted the SBU Functional Products. The impairment losses are included in the amortization of goodwill.

No impairment losses nor reversals thereof were recognized in the prior year.

(2) Property, plant and equipment

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

€ millions							
	Land, land rights and buildings	thereof finance leases	Technical facilities, plant and machinery	thereof finance leases	Other factory and office equipment	Prepayments and assets under construction	Total
Cost							
At January 1, 2003	587	22	1,846	22	192	35	2,660
Changes in the Group/acquisitions	8	0	34	0	0	2	44
Additions	5	0	41	0	10	46	102
Disposals	-3	0	-33	0	-8	-1	-45
Reclassifications	6	0	20	0	4	-30	0
Translation differences	-47	0	-139	0	-13	-4	-203
At December 31, 2003	556	22	1,769	22	185	48	2,558
Accumulated depreciation							
At January 1, 2003	243	6	1,343	11	150	0	1,736
Changes in the Group/acquisitions	-1	0	-1	0	0	0	-2
Depreciation 2003	25	1	102	1	17	1	145
Impairment losses	2	0	26	0	0	0	28
Disposals	-2	0	-27	0	-8	-1	-38
Reclassifications	1	0	-3	0	2	0	0
Translation differences	-20	0	-109	0	-10	0	-139
At December 31, 2003	248	7	1,331	12	151	0	1,730
Book values							
At December 31, 2003	308	15	438	10	34	48	828
Book values							
At December 31, 2002	344	16	503	11	42	35	924

Finance leases comprise leases to 2016 in respect of buildings and leases to 2007 in respect of technical facilities. These leases cannot be terminated before maturity. The lease on the technical facilities includes a purchase option exercisable at contract maturity.

Impairment losses of € 28 million were recognized in 2003, particularly in respect of production facilities of the SBU Oleochemicals. The majority of these impairment losses are included in other operating expenses and restructuring costs.

Impairment losses on property, plant and equipment amounted to € 8 million in the prior year. There were no reversals of impairment losses in 2002 or 2003.

(3) Investments in affiliates and other investments

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

€ millions			
	Affiliated companies	Other investments	Total
Cost at January 1, 2003	3	1	4
Cost at December 31, 2003	3	1	4
Accumulated write-downs at January 1, 2003	3	0	3
Accumulated write-downs at December 31, 2003	3	0	3
Book values at December 31, 2003	0	1	1
Book values at December 31, 2002	0	1	1

There were no impairment losses nor reversals thereof relating to financial assets in 2002 or 2003.

(4) Inventories

Inventories are comprised as follows:

€ millions	December 31, 2003	December 31, 2002
Raw materials and supplies	130	175
Work in process	83	98
Finished products and merchandise	216	209
Customer prepayments on inventories	2	2
Total	431	484

(5) Trade accounts receivable

Marketing and selling expenses include increases in valuation allowances for doubtful accounts receivable of € 4 million (2002: € 7 million).

(6) Other receivables and other current assets

€ millions	December 31, 2003		December 31, 2002	
	Total	Remaining term up to 1 year	Total	Remaining term up to 1 year
Finance receivables from affiliates and investments	0	0	1	1
Other current assets	96	85	127	103
Prepaid expenses	6	6	12	12
Total	102	91	140	116

Other current assets are comprised as follows:

€ millions	December 31, 2003	December 31, 2002
Fair value of derivative financial instruments	28	5
Tax refunds receivable	26	33
Deferred compensation trust fund	12	15
Insurance claims receivable	7	4
Accounts receivable from suppliers	6	6
Amounts receivable from employees	3	5
Securities held on deposit	3	4
Prepayments made	2	8
Amounts receivable from Henkel KGaA arising from the purchase of the Group	0	34
Other	9	13
Total	96	127

(7) Cash and cash equivalents

As at December 31, 2003, € 137 million (2002: € 258 million) of cash secure senior loans.

(8) Shareholder's equity

The share capital of Cognis GmbH, Düsseldorf, Germany is € 25 thousand. In addition, the shareholder of Cognis GmbH contributed € 150 million to the Company's capital reserve.

On December 31, 2003, Cognis' sole shareholder transferred its shareholder loan receivable from a Cognis Group company (see Note 11 – Borrowings), together with all associated rights, responsibilities and accrued interest receivable, to Cognis GmbH. This transfer resulted in an increase of € 375 million in the capital reserve of Cognis GmbH.

Changes in the fair value, and related deferred tax effects, of derivative financial instruments which qualify as cash flow hedges are recorded directly in the IAS 39 reserve in equity.

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

Provisions developed as follows in 2003:

€ millions	January 01, 2003							December 31, 2003
		Changes in the Group/ acquisitions	Utilized	Released	Added	Translation differences	Reclassified	
Provisions for pensions and similar obligations	519	12	- 64	- 40	52	- 23	- 10	446
Tax provisions	19	4	- 18	0	8	0	0	13
Sundry provisions	178	2	- 122	- 9	123	- 9	10	173
Total provisions	716	18	- 204	- 49	183	- 32	0	632

Provisions for pensions and similar obligations

Subject to varying national legal, financial and tax regulations, Cognis offers its employees various retirement benefit plans. The Group operates a number of defined benefit pension plans, defined contribution pension plans and post-retirement healthcare plans throughout the world.

Provisions relating to defined benefit plans have been calculated using the projected unit credit method, which takes the expected future development of wages, salaries and retirement benefits into account. Cumulative actuarial gains and losses are recognized to the extent they exceed 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets. The excess portion is recognized in income over the average remaining service life of employees participating in the plan.

The actuarial assumptions used in determining the obligations from defined benefit plans, net of plan assets, are as follows:

%	2003	2002	2003	2002
	Germany		USA	
Discount rate	5.5	5.75	6.0	7.25
Future salary increase (in USA, including benefit increase)	2.5	3.0	4.5	5.0
Future benefits increase	1.0	1.5		
Expected return on plan assets			8.5	9.0

In other countries, the future expectations are based on local conditions in the country concerned.

€ 37 million of pension provisions released relate to restructuring of the pension and post-retirement healthcare plans of Cognis Corporation, USA. The "Utilized" column includes € 34 million of contributions to the pension fund of Cognis Corporation, USA.

Provisions for pensions and similar obligations are comprised as follows:

€ millions				December 31, 2003
	Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations	332	93	9	434
Present value of funded defined benefit obligations	2	209	68	279
Fair value of plan assets	- 1	- 169	- 52	- 222
	333	133	25	491
Unrecognized actuarial (losses)/gains	3	- 69	- 3	- 69
Unrecognized past service costs	0	24	0	24
Provisions for pensions and similar obligations	336	88	22	446

€ millions				December 31, 2002
	Germany	USA	Rest of world	Total
Present value of unfunded defined benefit obligations	341	110	18	469
Present value of funded defined benefit obligations	2	204	20	226
Fair value of plan assets	- 1	- 158	- 19	- 178
	342	156	19	517
Unrecognized actuarial (losses)/gains	- 3	0	- 6	- 9
Unrecognized past service costs	0	11	0	11
Provisions for pensions and similar obligations	339	167	13	519

2003 costs of defined benefit pensions and similar obligations are comprised as follows:

€ millions	2003	2002
Current service cost	17	17
Actuarial losses	0	1
Pension costs	17	18
Other costs for obligations similar to pensions	3	6
Total	20	24
Interest expense	43	44
Expected return on plan assets	- 14	- 15
Actuarial losses (financial)	3	0
Net interest expense	32	29
Total cost of pension and similar obligations	52	53

Pension costs of € 20 million (2002: € 24 million) are included in operating profit (EBIT). The finance charge, that is interest element net of the expected return on plan assets, as well as related actuarial gains and losses, are recognized in net financing costs (see Note 19 – Net financing costs). € 3 million of actuarial losses resulting from a reassessment of the expected return on plan assets were included in net financing costs on this basis.

Sundry provisions

Changes in "Sundry provisions" were as follows:

€ millions	January 01, 2003	Changes in "Sundry provisions" were as follows:						December 31, 2003
		Changes in the Group/ acquisitions	Utilized	Released	Added	Translation differences	Reclassified	
Restructuring costs	26	0	- 24	- 6	46	- 2	10	50
Employee bonuses	42	0	- 41	0	26	- 2	0	25
Environmental protection measures	15	0	- 4	0	1	- 1	0	11
Commissions and bonuses	15	0	- 14	- 1	11	- 2	0	9
Employee vacation bonuses	9	0	- 6	0	6	0	0	9
Employment anniversary bonuses	7	1	- 1	0	1	0	0	8
Litigation risks	5	0	- 4	0	4	- 1	0	4
Anticipated contract losses	1	0	- 1	0	1	0	0	1
Other	58	1	- 27	- 2	27	- 1	0	56
Total	178	2	- 122	- 9	123	- 9	10	173

As at December 31, 2003, sundry provisions totaling € 71 million (2002: € 38 million) were non-current (that is, due after more than one year).

(11) Borrowings

Borrowings include all interest-bearing obligations of the Cognis Group outstanding at December 31, 2003. The Group's borrowings are comprised as follows:

€ millions	Remaining term			December 31, 2003	December 31, 2002
	up to 1 year	between 1 and 5 years	more than 5 years		
Senior loans	50	400	497	947	1,107
Less:					
Financing fees	- 12	- 40	- 10	- 62	- 75
Bank overdrafts	23	0	0	23	21
Bank loans	61	360	487	908	1,053
Subordinated loans					
Vendor note from Henkel KGaA	0	0	403	403	377
Shareholder loan	0	0	0	0	353
Finance lease liabilities	4	12	9	25	27
Other borrowings	4	12	412	428	757
Total	65	372	899	1,336	1,810

Of the borrowings outstanding at December 31, 2002, € 50 million (€ 46 million thereof bank loans) had a remaining term of up to one year, € 311 million (thereof € 297 million bank loans) had a remaining term of one to five years and € 1,449 million (thereof € 710 million bank loans) had a remaining term of more than five years.

At December 31, 2003, the senior loans were secured by pledges of shares in Group companies. Cognis Group companies are jointly and severally liable for the senior loan obligations. In addition, the senior loans were secured by the following:

€ millions	December 31, 2003	December 31, 2002
Intangible assets (excluding goodwill)	287	319
Property, plant and equipment	706	783
Inventories	361	321
Accounts receivable	350	321
Cash	137	258
Other current assets	35	51
Total	1,876	2,053

The senior loans are comprised as follows:

Facility A with remaining principal of € 370 million, EURIBOR-based variable interest rate (4.072 % at balance sheet date), repayment in increasing semi-annual installments each June 30 and December 31 until expiry on November 30, 2008.

Facility B for € 262 million and USD 131 million (€ 103 million), term 8 years to November 30, 2009, EURIBOR-based (for euro loan) and LIBOR-based (for US dollar loan) variable interest rate (euro loan 4.822% and US dollar loan 3.85% at balance sheet date), repayment at maturity.

Facility C for € 109 million and USD 131 million (€ 103 million), term 9 years to November 30, 2010, EURIBOR-based (for euro loan) and LIBOR-based (for US dollar loan) variable interest rate (euro loan 5.572% and US dollar loan 4.600 % at balance sheet date), repayment at maturity.

In addition to scheduled repayments, Cognis is obligated to make an annual repayment on the senior loans determined broadly as a proportion of the prior year's net cash flow. In 2003, this repayment amounted to € 12 million. Additionally, Cognis made a voluntary repayment of € 70 million in 2003.

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

The vendor note dated November 30, 2001 from Henkel KGaA for € 350 million bears interest of 7.0% p.a. until 30 November 2004. Thereafter, the interest rate increases to 16%. Interest is compounded annually on December 1. The note and accrued interest are payable in full at expiry in 10 years, with early repayments possible at any time.

On December 31, 2003, Cognis' sole shareholder transferred its shareholder loan, totaling € 375 million including accrued interest, to Cognis GmbH, resulting in an increase in Cognis' capital reserves of € 375 million (see Note 8 – Shareholder's equity).

The following future minimum finance lease payments are due:

€ millions	2003	2002
Due up to 1 year	4	4
Due between 1 and 5 years	15	17
Due later than 5 years	16	18
Total minimum lease payments due	35	39
Less: interest component	10	12
Present value of finance lease liabilities	25	27

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

(12) Trade accounts payable

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

(13) Other liabilities

Other liabilities are comprised as follows:

€ millions	December 31, 2003		December 31, 2002	
	Total	Remaining term up to 1 year	Total	Remaining term up to 1 year
Taxes payable	9	9	12	12
Liabilities in respect of social security	11	11	10	10
Sundry liabilities including deferred income	82	59	93	69
Total	102	79	115	91

Sundry liabilities are comprised as follows:

€ millions	December 31, 2003	December 31, 2002
Liabilities to employees	31	32
Negative fair value of derivative financial instruments	21	31
Taxes and social security payments for employees	8	8
Commission payments payable	4	4
Payable to customers	2	5
Customer prepayments	1	1
Other	15	12
Total	82	93

Liabilities to employees largely comprise liabilities from the pre-retirement part-time employment plan and deferred compensation. Included in this figure are € 9 million (2002: € 8 million) liabilities with a remaining term of up to one year.

Notes to the Consolidated Income Statement

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

(14) Sales

The sales by region are as follows:

€ millions							
	Germany	Rest of Europe	North America	Latin America	Africa	Asia-Pacific	Group
Sales by company jurisdiction 2003	964	739	716	162	5	364	2,950
Change from previous year*	-6.2%	6.2%	-14.3%	-6.9%	0.0%	-6.2%	-5.6%
Proportion of Group sales 2003*	32.7%	25.1%	24.3%	5.5%	0.1%	12.3%	100.0%
Sales by company jurisdiction 2002	1,028	696	835	174	5	388	3,126
Sales by destination 2003	507	1,012	704	226	44	457	2,950
Change from previous year*	0.6%	-1.5%	-14.3%	-7.0%	-2.2%	-6.0%	-5.6%
Proportion of Group sales 2003*	17.2%	34.3%	23.8%	7.7%	1.5%	15.5%	100.0%
Sales by destination 2002	504	1,027	821	243	45	486	3,126

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

(15) Other operating income

€ millions	2003	2002
Release of provisions for pensions and similar obligations	35	15
Gains from disposals and write-ups of fixed assets	4	1
Release of other provisions	3	6
Release of allowances for doubtful accounts receivable	0	1
Sundry	33	12
Total	75	35

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

Included in Sundry in 2003 is the gain of € 20 million which arose on the disposal of Cognis' fragrance business.

(16) Other operating expenses

Other operating expenses include impairment losses on fixed assets of € 19 million and costs relating to the global implementation of SAP systems of € 9 million.

In the prior year, other operating expenses of € 20 million included write-downs on the purchased order book, insurance deductibles, litigation costs, product guarantee costs and customer service costs.

(17) Restructuring costs

Restructuring costs relate to early retirement plans, employee severance and plant or business closures that are either incurred or approved and announced.

Restructuring costs are comprised as follows:

€ millions	2003	2002
Early retirement, employee severance and pre-retirement programs	47	21
Cost of site closures and relocation	4	13
Impairment losses	7	7
Release of restructuring provisions	- 4	0
Total	54	41

(18) Operating profit (EBIT) – Exceptional items

Net losses from exceptional items in the amount of € 57 million are included in 2003 operating profit (EBIT).

€ millions	2003
Restructuring costs	54
Expenditures relating to the separation from Henkel	19
Impairment losses on goodwill	17
Impairment losses on property, plant and equipment	19
Other operating expenses	6
Release of provisions for pensions and similar obligations	- 35
Gain on sale of fragrance business	- 20
Gain on sale of a plant in Asia	- 3
Total	57

In the prior year, the net exceptional loss of € 38 million was comprised of restructuring costs of € 41 million and a net gain of € 3 million. The net gain was the net result of € 15 million in gains resulting from the restructuring of the post-retirement healthcare plan of Cognis Corporation, USA, € 4 million in other income, € 7 million in costs for new SAP systems relating to the ongoing separation from Henkel, € 2 million in litigation costs incurred in South America and € 7 million in other exceptional costs.

(19) Net financing costs

€ millions	2003	2002
Interest expense		
– Senior loans	51	67
– Amortization of financing fees of senior loans	12	9
– Subordinated loans	48	46
– Finance leases	2	2
– Pension provisions	32	29
– Other interest expense	2	3
Total	147	156
Interest income	– 7	– 8
Net interest expense	140	148
Income from investments	– 1	– 1
Foreign exchange losses	8	17
Gains and losses on derivative financial instruments		
– Interest rate swaps and collars: Cash flow hedges (transfer from IAS 39 equity reserve)	18	11
– Interest rate swaps and collars: Cash flow hedges (amortization of option premiums paid)	2	2
– Foreign currency instruments not qualifying as hedges	–19	2
Banking fees	4	4
Total	152	183

Income is shown as negative.

(20) Income taxes

€ millions	2003	2002
Current taxes	21	30
Deferred taxes	– 59	– 47
Income taxes	– 38	– 17

Deferred tax income results primarily from timing differences (€ 50 million) and changes in expected future tax rates (€ 1 million).

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

€ millions	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	Deferred tax assets	Deferred tax assets	Deferred tax liabilities	Deferred tax liabilities
Patents/Licenses	7	3	13	16
Goodwill	41	0	0	1
Property, plant and equipment	4	4	46	50
Financial assets	0	6	0	6
Inventories	14	19	3	3
Other receivables and other current assets	7	18	12	2
Special tax-allowable items	2	4	0	0
Provisions	84	118	3	2
Liabilities	20	14	2	5
Loss carry-forwards	85	55	0	0
	264	241	79	85
Amounts net	- 45	- 42	- 45	- 42
Balance sheet figures	219	199	34	43

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

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

€ millions	December 31, 2003	December 31, 2002
Expiry date within		
1 year	0	6
2 years	0	2
3 years	0	0
more than 3 years	100	38
Indefinite carry-forward	130	134
Total	230	180

Deferred tax assets are recognized to the extent they are expected to be realized as supported by business plans.

Deferred tax assets resulting from tax loss carry-forwards are expected to be realized within three and fifteen years from the balance sheet date. Deferred tax assets have not been recognized in respect of loss carry-forwards of € 38 million (2002: € 25 million) since they are not expected to be realized.

In accordance with IAS 12.53, deferred tax assets and liabilities are not recognized at their present value. Based on annual discount rates from 5.5% to 6.0%, the present value of deferred tax assets on tax loss carry-forwards ranges from € 45 million to € 50 million.

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

€ millions	2003	2002
Profit before tax	- 102	- 41
Tax rate on income of Cognis GmbH	40%	40%
Estimated tax charge/ proceeds	- 41	- 16
Effect of different tax rates in other countries	- 1	- 11
Income not subject to tax	- 3	- 6
Expenses not deductible for tax purposes	16	18
Tax expense/ recovery, prior periods	- 9	- 2
Income taxes	- 38	- 17
Effective tax rate	37%	42%

Tax recoveries are shown as negative.

(21) Minority interests

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

(22) Cost of materials

€ millions	2003	2002
Cost of raw materials, supplies and merchandise	1,559	1,569
Cost of external services	132	135
Total	1,691	1,704

(23) Payroll costs

€ millions	2003	2002
Wages and salaries	387	406
Social security contributions and employee benefits	83	87
Pension costs	18	19
Total	488	512

Social security contributions and employee benefits include the costs of defined contribution pension plans.

(24) Employee numbers

At the balance sheet date, the number of employees (excluding trainees, apprentices and interns) was as follows:

Numbers	2003	2002
Production	4,947	5,205
Marketing, sales and distribution	1,061	1,265
Research, development and applications engineering	870	926
Administration	1,782	1,550
Total	8,660	8,946

Notes to the Consolidated Cash Flow Statement**(25) Acquisitions**

Cognis purchased the UK-based specialty chemicals group Laporte Performance Chemicals effective April 1, 2003. Cognis thereby acquired two production and research facilities in the UK together with several trading companies, and strengthened its portfolio in synthetic lubricants and coatings.

On the acquisition date, the net assets acquired were as follows:

€ millions	2003
Intangible assets (excluding goodwill)	1
Property, plant and equipment	47
Inventories	14
Accounts receivables and other receivables	18
Cash and cash equivalents	1
Provisions for pensions and similar obligations	- 12
Provisions for deferred taxes	- 4
Tax and Sundry provisions	- 6
Liabilities	- 12
Net assets acquired	47
Goodwill	41
Total acquisition cost	88

The total cash outflow from this acquisition of € 87 million comprised the purchase price of € 88 million, including debt repaid upon acquisition of € 41 million, and transaction and advisory costs, net of € 1 million of cash acquired.

In the period from acquisition to the balance sheet date, the acquired business contributed €79 million sales and €1 million profit before tax to the consolidated financial results.

Acquisitions are shown net of €34 million received in retroactive purchase price adjustments relating to the acquisition of the Cognis Group.

(26) Proceeds from disposals of fixed assets and divestments

Cognis sold its 100% interest in a French subsidiary, which produced ingredients for meat processing and ready-to-eat meals, effective January 1, 2003. In 2002, this business generated €8 million in sales.

Effective April 1, 2003, Cognis sold a business in Italy which produced color additives for plastics. This business generated €1 million sales in 2003.

Effective May 9, 2003, Cognis sold its fragrances business. The business contributed €19 million in sales during 2003 (comprising sales up to the date of disposal of €9 million and revenues from contract manufacturing after that date of €10 million) and €30 million in 2002.

These divestments had the following effects, on the transaction dates, on the consolidated balance sheet:

€ millions	2003
Intangible assets	9
Property, plant and equipment	2
Inventories	8
Accounts receivables and other receivables	1
Liabilities	-3
Net assets sold	17
Net gains on disposals	19
Total proceeds from divestments	36

(27) Change in pension provisions (excluding interest element)

Cash changes in provisions for pensions comprise €38 million contributions to pension funds, thereof €34 million in the USA, and payments to beneficiaries of €26 million. Contributions are made to pension funds to finance future payments to beneficiaries. Also included in this position are non-cash additions, excluding interest, to pension provisions and releases of pension provisions.

(28) Non-cash transactions

On December 31, 2003, Cognis' sole shareholder transferred its loan receivable, totaling €375 million including accrued interest, to Cognis GmbH, resulting in an increase in Cognis' capital reserves of €375 million (see Note 8 – Shareholder's equity).

Supplementary Information

(29) Derivatives and other financial instruments

Management of financial risk

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

Currency risks

The Group incurs foreign currency risk on transactions that are denominated in currencies other than euro, and on net investments in entities which conduct business in currencies other than the euro. The currencies giving rise to these risks are the US Dollar, Pounds Sterling, Japanese Yen and Malaysian Ringgit.

Central Treasury and Group companies use external forward exchange contracts, cross currency swaps and other instruments in order to limit exposures to three specific sources of foreign currency risk. First, sales orders, purchase orders, accounts receivable and accounts payable denominated in foreign currencies are hedged on a net basis by currency each month. Second, the forecast 2004 USD revenues of Cognis Deutschland GmbH & Co. KG, the Group's primary operating entity in Germany, have been hedged to euro. The instruments involved have been designated as cash flow hedges. Third, by means of cross currency swaps, € 188 million of euro-denominated borrowings were effectively converted to USD 214 million until 30 November 2004.

Interest rate risks

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

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

The interest rate option contracts each comprise a cap and a floor, together creating a "collar" that restricts Cognis' exposure to interest rate variability. At inception, these interest rate option contracts were accounted for at cost (the option premium). The initial cost of interest rate swaps is nil. Both the interest rate option contracts and the interest rate swaps were revalued to fair value as at the balance sheet date.

The change in fair value amounting to negative € 4 million and negative deferred tax effects of € 5 million (2002: negative € 35 million after deferred tax) were taken to the IAS 39 reserve in equity. These fair value adjustments are then transferred from equity into the income statement when the hedged item, in this case the variable rate interest expense, affects the income statement. On this basis, fair value losses of € 17 million (2002: € 11 million) were transferred from the IAS 39 reserve to the income statement in 2003. In addition, since the requirements of an effective cash flow hedge were no longer satisfied, fair value losses, net of deferred tax, of € 1 million related to one instrument were released from equity to income. Note that the fair value losses on the interest rate hedging instruments offset lower variable rate interest expense on senior loans.

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

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

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

€ millions	Dec. 31, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
	Notional amounts		Fair values	
Foreign currency instruments	447	274	25	- 2
Interest rate instruments	988	1,027	- 18	- 23
Total	1,435	1,301	7	- 25

Credit Risk

Cognis generates approximately 8% of its revenues with its largest customer. Cognis' remaining customers each account for less than 3% of revenues. The ten largest customers account for about 20% of revenues.

(30) Contingent liabilities

Contingent liabilities are as follows:

€ millions	December 31, 2003	December 31, 2002
Guarantees issued	1	–

In accordance with the provisions of Section 17 of the Republic of Ireland Companies (Amendments) Act 1986, Cognis GmbH has given irrevocable guarantees for the year from January 1, 2003 to December 31, 2003 in respect of the liabilities, as referred to in Section 5 (c) (ii) of that Act, of the subsidiary companies Cognis Ireland Limited, Dublin, Cognis Ireland (Marketing) Limited, Dublin, Bumblebee Limited, Dublin, and Catstyecam Limited, Dublin. As at the balance sheet date, the liabilities guaranteed total € 5 million (2002: € 6 million).

(31) Other financial commitments

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

€ millions	December 31, 2003	December 31, 2002
Payment obligations under rent, leasehold and leasing agreements	43	39
– of which due in the following year	15	16
– in the 2nd year	12	15
– in the 3rd year	12	5
– in the 4th year	3	2
– in the 5th year	1	1
– in the 6th year or later	–	–
Orders for property, plant and equipment	9	9
Orders for inventories	210	219
Total	262	267

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

(32) Compensation and loans to Supervisory and Management Board

Total compensation to members of senior corporate management amounted to € 2,787,002 (2002: € 2,591,563). Compensation to former members of corporate management and their surviving dependants amounted to € 1,368,259 (2002: € 934,707). Pension provisions of € 11,707,283 (2002: € 9,945,480) for these individuals have been accrued in the annual financial statements of Cognis GmbH.

The remuneration of the Supervisory Board amounted to € 103,800 (2002: € 90,000).

During 2002, one member of the Management Board was granted a company loan in the amount of € 30,000. The loan bore interest at 5.5% p.a. and was repaid during the year.

(33) Transactions with shareholder

Cognis GmbH is owned by Cognis Holding Luxembourg S.a.r.l. As disclosed in Note (11) – Borrowings, Cognis Holding Luxembourg S.a.r.l. contributed its shareholder loan receivable from Cognis GmbH & Co. KG of € 330 million and accrued interest of € 45 million to the capital reserve of Cognis GmbH on December 31, 2003.

(34) Principal subsidiary companies

%		December 31, 2003	December 31, 2002
Company	Domicile	Share of capital	
Cognis Deutschland GmbH & Co. KG	Düsseldorf (Germany)	100	100
Cognis Corporation	Cincinnati (USA)	100	100
Cognis France S.A.	Ponthierry (France)	100	100
Cognis Iberia S.L.	Barcelona (Spain)	100	100
Cognis S.p.A.	Fino Mornasco (Italy)	100	100
Grünau Illertissen GmbH	Illertissen (Germany)	100	100
Cognis Kimya Sanayi ve Ticaret A.S.	Istanbul (Turkey)	100	100
Cognis Brasil Ltda.	Sao 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
Cognis Performance Chemicals UK	London (UK)	100	-
Cognis Ireland Ltd.	Cork (Ireland)	100	100

Düsseldorf, February 26, 2004



Dr. Antonio Trius
Chief Executive Officer



Dr. Helmut Heymann
Executive Vice President
Chief Administration Officer



Joachim Söhngen
Executive Vice President
Chief Financial Officer

Report of the Independent Auditors

The full version of the consolidated annual financial statements of Cognis GmbH as at December 31, 2003 has been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft. The following audit report has been issued in respect of these financial statements:

To Cognis GmbH, Düsseldorf:

We have audited the voluntary consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholder's equity and cash flows as well as the notes to the consolidated financial statements prepared by the Cognis-Group for the business year from January 1, 2003 to December 31, 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

Our audit, which also extends to the group management report prepared by the Company's management for the business year from January 1, 2003 to December 31, 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development.

Düsseldorf, February 26, 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Michael Gewehr
Wirtschaftsprüfer

Alfred Pietsch
Wirtschaftsprüfer

Supervisory Board and Corporate Management

Supervisory Board of Cognis Verwaltungs-GmbH

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

Dr. Harald Wulff

Chairman, Düsseldorf

(1) (3) (4) (5)

Former CEO of Cognis

Thomas Fischer

Vice Chairman, Düsseldorf

(2) (3) (4) (5)

Chairman of the Workers' Councils of Cognis GmbH & Co. KG and Europe

Dr. Uwe-Ernst Bufe

Königsstein

(1) (3)

Former CEO of Degussa Hüls AG
Chairman, UBS Investment Bank AG, Frankfurt a.M.
Altana AG, Bad Homburg v.d.H.
Akzo Nobel N.V., Arnhem, Netherlands
Frankfurter Versicherungs AG, Frankfurt a.M.
Rütgers AG, Essen
Solvay S.A., Brussels, Belgium

John Cheesmond

Basel/Switzerland

(1) (4)

Schroder Ventures Life Sciences
Former Executive Vice President and
Member of Management Board
of Ciba Specialty Chemicals

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(2)

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Aventis Deutschland GmbH

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3M German Holdings GmbH

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London/United Kingdom

(1)

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Richard Sharp

London/United Kingdom

(1)

Goldman Sachs International

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

Cognis GmbH Management Board

Dr. Antonio Trius Chief Executive Officer	Dr. Helmut Heymann Executive Vice President Chief Administration Officer	Joachim Söhngen Executive Vice President Chief Financial Officer
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Cognis Executive Committee

In addition to the members of the Cognis GmbH Management Board

Paul Allen Group Vice President Nutrition & Health	Dr. Alfred Meffert Group Vice President Worldwide Manufacturing	Richard Ridinger Group Vice President Care Chemicals
Jorge Guixá Group Vice President Southern Europe	Michael E. Miller Group Vice President North America	Dr. Michael Schulenburg Group Vice President Germany and Northern Europe
Dr. Klaus Künstler Group Vice President Research and Technology	Pierre Renaud Group Vice President Oleochemicals	Guido Willems Group Vice President Functional Products

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Glossary

Cognis

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

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

Chemical terms

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

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

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

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

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

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

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

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

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

Primary surfactants Water-soluble surface-active chemical compounds 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, concessions, licenses and patents. Fixed assets do not include inventories, i.e. stocks of raw materials and stocks of goods already manufactured.

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

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

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

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

General technical terms

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

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

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

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

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

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

Examples include synthetic gear oils for heavy trucks, and cosmetic facemasks.

Cognis worldwide

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

Algeria
Angola
Argentina
Australia
Austria
Bahrain
Bangladesh
Barbados
Belarus
Belgium
Benin
Bolivia
Bosnia-Herzegovina
Brazil
Bulgaria
Cameroon
Canada
Chile
China
Colombia
Costa Rica
Côte d'Ivoire
Croatia
Cyprus
Czech Republic
Denmark
Dominican Republic
Ecuador
Egypt
El Salvador
Estonia
Finland
France
Germany
Ghana
Greece
Guatemala
Honduras
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Jamaica
Japan
Jordan
Kazakhstan
Kenya
Korea
Kuwait
Kyrgyzstan
Latvia
Lebanon
Lesotho
Lithuania
Luxembourg
Macedonia
Malawi
Malaysia
Mexico
Morocco
Nepal
Netherlands
New Zealand
Nigeria
Norway
Oman
Pakistan
Paraguay
Peru
Philippines
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Portugal
Qatar
Romania
Russian Federation
Saudi Arabia
Senegal
Singapore
Slovakia
Slovenia
South Africa
Spain
Sri Lanka
Swaziland
Sweden
Switzerland
Taiwan
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USA
Uzbekistan
Venezuela
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Yemen
Yugoslavia
Zambia
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