

Our 120th Year

Henkel Annual Report 1996

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Preface

Dear Shareholders,

For the Henkel Group, fiscal 1996 was both a successful and an eventful year. With net earnings recorded at DM 515 million - an increase of six percent compared with last year - we once again succeeded in further increasing our profit level. The year under review was notable for a number of developments and measures which will have a major influence on the performance and structure of the Henkel Group in the future.

The objective of all the actions taken is to improve our competitiveness, secure our future profitability and increase our shareholder value in the face of the challenges arising from tougher competition and the increasing speed of change.

Under the slogan "Year of Sales", all the companies and product divisions of the Henkel Group developed a wide

range of activities geared toward realizing the potential for further sales growth, expanding our customer base, and accelerating internal growth.

Through strategic acquisitions, we were able to further strengthen our position in sectors in which we consider the long-term market opportunities as particularly promising.

During the year under review, for example, the Schwarzkopf cosmetics business, acquired in 1995, was successfully integrated in our own operations, with the result that we were able almost to double our cosmetics sales worldwide.

With a number of acquisitions, of which the most significant was that of the Novamax Technologies Corporation, USA, Henkel extended its lead in the field of metal surface treatment products and systems.

And finally, during the last quarter of fiscal 1996, we launched a public bid to acquire the Loctite Corporation, USA, in which we already held 35 percent. In January of this year, the bid was successfully concluded. The value of this largest transaction in our history was around US\$ 1.3 billion.

With the acquisition of Loctite, we have succeeded in gaining access to the important American consumer adhesives market. With the product portfolio of Loctite and the research and development resources of this successful company we will be able to complement our own range by a number of technologically sophisticated adhesives which are employed in high-tech applications.

The globalization of our businesses continued. Particularly noteworthy are the growth rates - some acquisition-related - in Asia/Australia (56 percent), Latin America (35 percent), North America (16 percent), and the European countries outside Germany (14 percent).

Our employee structure changed accordingly. While staffing levels at our German companies were further reduced as a result of ongoing restructuring measures - the increase in number of employees indicated for Germany derives from the incorporation of the Schwarzkopf operation -, the number of people working abroad further increased. The foreign share of our total workforce rose in 1996 from 64 to 66 percent.

Within the framework of our shareholder value program, we will in future be offering our senior management a stock option program based on the relative performance of the Henkel share versus the German stock index DAX.

Also in the context of this program, we have expanded our [segment reporting](#) in order to provide a better insight into the structures of our Company.

Fortunately you, our shareholders, have responded to this program very positively. The performance of the Henkel stock during the year under review provides ample proof of this; our investors have enjoyed an above-average increase in share value.

This can only spur the Company and its employees to even greater achievements. We expect 1997 to be a year of further success.

Albrecht Woeste
Chairman of the Supervisory Board
and of the [Shareholders' Committee](#)

Hans-Dietrich Winkhaus
President and
Chief Executive Officer

Financial Highlights

(figures in DM millions, unless stated otherwise)

Henkel Group

1996

1995

Sales	16,301	14,198
Operating profit	744	725
Earnings before taxes on income	775	760
Net earnings	515	488
Cash Flow	1,498	1,249
- as % of sales	9.2	8.8
Shareholder's equity ¹⁾	4,816	4,303
Capital expenditure	1,630	2,109
Research and development costs	401	369
Number of employees (annual average)	46,377	41,728

Henkel KGaA	1996	1995
Dividend per DM 5 ordinary share (in DM)	1.20 ²⁾	1.05
with tax credit	1.57	1.50
Dividend per DM 5 preferred share (in DM)	1.30 ²⁾	1.15
with tax credit	1.70	1.64
Total dividends	181.1 ²⁾	159.9

1) incl. participating certificates and participating loans

2) proposed

1997 Annual General Meeting of Henkel KGaA:

Monday, April 28, 1997, 10.00 a.m., CCD Congress Center Düsseldorf

Fall Press Conference and Analysts' Meeting

Monday, November 10, 1997

1998 Annual General Meeting of Henkel KGaA:

Monday, May 4, 1998, 10.00 a.m., CCD Congress Center Düsseldorf>

Management Report - Our 120th Year

World economic environment

In western Europe, economic development in 1996 was subdued.

The main driving force behind the growth achieved was provided by exports boosted by the low parity value of most of the western European currencies as compared with the dollar. Investment activity remained moderate with expenditure in the construction sector undergoing a decline. The consumer goods markets were found to be in a more healthy state. However, the extent to which they were able to encourage growth was limited owing to the continuing high levels of unemployment.

The central European countries underwent further economic expansion, albeit at a slightly reduced rate. Once again, the rate of economic development in Russia was disappointing.

The USA saw an upturn in economic growth. The high level of business activity was promoted both by an increase in demand for capital goods and by an improvement in private consumption. Investments in construction also rose substantially. The chemical and the automotive industries experienced a decline in growth rates, with both sectors plateauing out somewhat at the high level of business activity achieved in recent years.

Latin America has recovered appreciably since the advent of the Mexican currency crisis with its far-reaching consequences. Brazil underwent somewhat less pronounced expansion but, unlike Mexico and Argentina, had not suffered a downturn in economic activity in the previous year. In the emerging nations of Southeast Asia, there was a slight easing in the dynamic growth rates of previous years. The economy in Japan grew more strongly again after a preceding phase of stagnation, although this latest phase of economic expansion mostly resulted from state-sponsored activities.

Sales up 15 percent

Against this background of a mild economic improvement, our own businesses performed particularly well. In 1996, sales rose by 15 percent to DM 16.3 billion. Our German companies recorded an 8 percent improvement to DM 5.5 billion, while our companies abroad registered an increase in sales of 19 percent to DM 10.8 billion.

The significant growth in sales was due predominantly to the incorporation of acquisitions within the consolidated Group sales figures, and in particular that of the majority stake acquired in 1995 in Hans Schwarzkopf GmbH, Hamburg. Overall, acquisitions contributed to our business growth with 11 percent. Changes in the foreign exchange parities accounted for two percentage points of the improvement.

Our [Chemical Products](#) business sector increased sales by 4 percent. The [Oleochemicals](#) product group registered an improvement of 3 percent while [Organic Specialty Chemicals](#) experienced a 6 percent increase.

The [Metal Chemicals](#) business sector recorded stronger growth with sales up 10 percent. Without acquisitions, the increase amounted to 7 percent.

Adhesives performed particularly well with an increase in sales of 16 percent; the growth in our pre-acquisition business rose by 7 percent. [Technical Consumer Products](#) involving goods and materials for professional craftsmen, the do-it-yourself sector and the paper, office materials and stationery retail segment, increased sales by 15 percent, while with [Industrial Adhesives](#) the increase was 20 percent. In the case of our [Cosmetics/Toiletries](#) business, the acquisition of Hans Schwarzkopf GmbH and also growth achieved with our organic business, saw sales virtually double over the 1995 figure. Adjusted by acquisitions, the growth rate was around 8 percent, so still outstripping that of the market in general. Following the successful integration of Schwarzkopf, Henkel now counts among the leading cosmetics suppliers in Europe. The synergies expected to accrue from the acquisition are being utilized as planned.

The [Detergents/Household Cleansers](#) business sector achieved a growth in sales of 5 percent. Sales successes, particularly in Italy, Russia and Egypt, and also the sales figures achieved by new joint ventures in the Near East and in China were major contributors to this result.

In the [Industrial and Institutional Hygiene](#) business, sales showed an increase of 3 percent. Against a background of increasing competition, we were able to consolidate further our market position in this sector.

Profit at new record high

Operating profit increased by 3 percent to DM 744 million. The improvement in sales and also a disproportionately low increase in cost of sales contributed to this higher earnings figure. The positive effect on the margin was, however, partially eliminated by a substantial increase in distribution costs. A further burden on profits resulted from a significant rise in restructuring costs and considerably higher levels of goodwill amortization emanating from our acquisition activities. Other operating charges were at a level lower than in the previous year, although other operating income underwent an even larger decrease.

Earnings from financial items were adversely affected by higher interest charges on borrowings to finance our acquisitions, and by a write-down on participations. Higher earnings from participations in associated companies and the profit from the sale of our participation in Bombril S.A. did, however, serve to bolster the figure somewhat. Overall, income from financial items was slightly down on the previous year.

Earnings before taxes were up 2 percent to DM 775 million. As a result of reduced income tax - due mainly to the lower level of provisions necessary - net earnings rose by 6 percent to DM 515 million. With this new record, Henkel has once again confirmed its solidity in relation to its long-term earnings prospects.

Sales performance by region

The rise in sales of 8 percent recorded by our German companies resulted primarily from the incorporation of the German Schwarzkopf business in the consolidated sales figures for 1996. In the organic businesses, there was a decline of 3 percent. **Chemical Products** experienced a relatively heavy drop in sales. And also in the case of Adhesives and **Institutional Hygiene** products, sales were down. Our brand-name products were able to maintain the sales level of the previous year, while **Metal Chemicals** recorded an increase in sales.

Overall, domestic sales rose by 10 percent, while exports decreased by 1 percent.

Our foreign companies elsewhere in Europe achieved an increase in sales of 14 percent (7 percent without acquisitions). Positive exchange rate fluctuations contributed 3 percentage points to this growth value. **Metal Chemicals** performed particularly well as did - even discounting the increase in sales resulting from acquisitions - Adhesives and **Cosmetics/Toiletries**. Although developments in the individual countries varied, sales in Detergents and Household Cleansers were slightly above the figure for last year, with overall market share being retained.

In North America, we achieved a growth in sales of 16 percent. In our organic businesses, the increase in sales was 8 percent. Both **Chemical Products** and **Metal Chemicals** reported above-average performance.

In Latin America, sales showed an increase of 35 percent. Excluding the influence of our acquisitions, the increase was 17 percent. The major contributors to this improvement in performance were **Chemical Products**, **Metal Chemicals** and Adhesives, each reporting double-digit growth rates.

The sales of our African companies rose by 24 percent, albeit from a relatively low level. This growth in sales was mainly the result of the activities of our Egyptian subsidiary.

In the Near East, eastern Asia and in Australia, sales expanded by 56 percent overall. A considerable proportion of this improvement was due to the incorporation of the results of our joint ventures in Israel, Lebanon and China, and also the absorbed Schwarzkopf companies included in the consolidated Group sales figure. In relation to our organic businesses, the growth in sales was 11 percent. **Chemical Products** achieved an improvement in sales of 13 percent; good growth rates were registered in China, Malaysia, Indonesia and the Philippines. In Japan, the improvement in sales in the national currency was canceled out by a significant depreciation of the yen. With the incorporation of the new national activities, the sales structure of our businesses in the region concerned showed a significant shift toward detergents, cosmetics and adhesives.

Henkel Group Sales by Region

Region	Customer location			Company location		
	DM mill.	Change %	Share %	DM mill.	Change %	Share %
Germany	4,507	+10	28	5,483	+ 8	34
Rest of Europe	7,679	+13	47	7,115	+14	43
North America	1,886	+15	11	1,938	+16	12
Latin America	644	+26	4	510	+35	3
Africa	253	+11	2	178	+24	1
Asia, Australia	1,332	+44	8	1,077	+56	7
	16,301	+15	100	16,301	+15	100

Major acquisitions and joint ventures

By far the biggest acquisition in the history of Henkel was the takeover, initiated last year, of the Loctite Corporation, Hartford/USA, in which we had previously held a participating interest of 35 percent. In October 1996, Henkel made the other shareholders a public offer to purchase their shares at a price of US\$ 57.75 - subsequently increased to US\$ 61. The takeover bid was successfully concluded by the beginning of January 1997. The value of the transaction amounted to approx. US\$ 1.3 billion. With Loctite now added to our portfolio, we are able to offer our customers an ideally structured range of technologically highly developed adhesives. The acquisition means that, on the adhesives sector, Henkel will also enjoy access to the important American consumer market.

In 1996, we acquired United Resin Products, Green Brook, New Jersey, a company which is active in the USA in the packaging adhesives sector. This acquisition augments the Henkel portfolio in relation to hotmelt adhesives, and the additional production sites will enable us to cover the U.S. market more effectively. In Canada, we acquired the activities of Canadian Adhesives Ltd., Quebec, from SKW Trostberg AG. Canadian Adhesives is active in the joint sealing compounds and assembly adhesives segments and ideally complements the adhesives business of LePage's Ltd. which we acquired in 1995. Henkel has thus significantly expanded its position as market leader for trade and do-it-yourself products in Canada. In Australia, we acquired from George Weston Foods Ltd., Sydney, the business activities of N.B. Love Adhesives, Melbourne. This company is the market leader in Australia and New Zealand for packaging adhesives, and also counts among the leading suppliers of [industrial adhesives](#).

Our [metal chemicals](#) business was significantly strengthened in 1996 by the acquisition of Novamax Technologies Corporation, Atlanta/USA from the Molson Group, Toronto/Canada. Novamax Technologies is a manufacturer of products and systems for the treatment of metal surfaces and serves a number of major industrial customers. These include manufacturers of strip steel, aluminum façades, beverage cans, household appliances and agricultural machinery, as well as the automotive industry and automotive components suppliers. The company last registered sales of DM 340 million. With around 800 employees and business activities in 23 countries around the world, Novamax Technologies counts among the major international companies operating in the field of metal surface treatment. The acquisition of Novamax strengthens the [metal chemicals](#) business of Henkel not only in the USA and in Europe but also in Asia and South America. With this acquisition, Henkel has succeeded in further expanding its leading position in the field of metal surface treatment and has expanded its base for servicing its major international customers. Owing to the fact that the transaction was not closed until October 8, it still appears in the 1996 [annual financial statements](#) under financial assets. From 1997 on, the businesses of Novamax will be fully consolidated.

Henkel also purchased from National Starch and Chemical Company, Bridgewater/USA, the Thiem Automotive Division which is likewise active in the sector served by our [Metal Chemicals](#) product division. This business unit domiciled in Oak Creek near Milwaukee is a manufacturer of adhesives and sealants, and also corrosion inhibitors for the North American automotive industry.

In the [cosmetics/toiletries](#) sector, we took over those Schwarzkopf businesses in Thailand and Peru which had not been included in the scope of the Schwarzkopf acquisition implemented in 1995. In China, March 1996 saw the establishment of the joint venture Henkel Liyuan Cosmetics Ltd., Beijing. Our partner, the Liyuan company of Beijing, has contributed not only the production site but also the leading brand of hair colorant in China as a constituent part of the product range to be marketed by the joint venture.

In December 1996, Henkel took over the remaining 23 percent of the shares in Hans Schwarzkopf GmbH, Hamburg, exchanging them for Henkel shares. Already in November 1995, Henkel had acquired a 77 percent participating interest in Schwarzkopf from Hoechst AG.

In Israel, Henkel and Shemen Industries Ltd., Haifa/Israel, the majority interest of which is held by Koor Industries Ltd., established the joint venture Henkel Soad Ltd., headquartered in Haifa. The new company produces and markets cosmetics and toiletries, and also detergents and household cleansers.

In the detergents sector, Henkel founded with Obegi Consumer Products S.A.L. the company Henkel Lebanon S.A.L., domiciled in Beirut. Henkel Lebanon produces detergents at the Beirut site and, with renowned brand-name

products from Henkel such as Persil and Der General, holds the leading market position in that country. In China, the fourth joint venture in the detergents sector was founded in the form of Xuzhou Henkel Detergents and Cleaning Products Co. Ltd. which, with its location northwest of Shanghai, fills the regional gap between our previously established detergent joint ventures.

Major divestments

In Brazil, we sold the 25 percent participating interest in the capital of Bombril S.A., São Paulo, acquired two years ago, back to the majority owners Cragnotti & Partners NV. Negotiations geared toward the purchase of further shares in Bombril had previously ended without success. Henkel will continue to cooperate with Bombril in the field of liquid detergents and household cleansers.

In Germany, we sold the Krefeld production site of Thera Cosmetic GmbH to Dalli-Werke Mäurer + Wirtz GmbH & Co. KG, Stolberg, with effect from January 1, 1997. The previous Henkel production activities of Thera Cosmetic in Krefeld are to be continued in their entirety under the supervision of Dalli-Werke. The purpose of the sale was to utilize cost advantages and synergies through optimizing the joint production workload, and also to secure the Krefeld site as a future production location.

Capital expenditure

[\(Financial Highlights, Financial Performance, Segment reporting, Cash flow statement, Report of the Supervisory Board, Ten-Year Summary - Henkel Group\)](#)

Capital expenditure on tangible, intangible and financial assets amounted to DM 1,630 million in 1996. Of this figure, DM 516 million was for intangible assets. There was an addition to financial assets of DM 259 million which was predominantly due to the acquisition of Novamax.

The addition to tangible assets was DM 855 million. This figure represents a large number of medium and small investment projects geared mainly toward expansion, rationalization and replacement in production, coupled with expenditure on upgrading our production-related infrastructures.

As our most important project in Europe, the expanded facility in Cork/Ireland for the production of Ketoxim was taken on stream in the year under review. Ketoxim is an important agent which enables the inexpensive and efficient extraction of metals from solutions, particularly those of copper ores.

In Kankakee/USA, the extraction capacity for the manufacture of natural-source vitamin E was expanded. In Cincinnati/USA, process improvements for the production of synthetic lubricants were brought to a successful conclusion. A new facility for the manufacture of fatty acids in Selangor/Malaysia also came on stream.

At our parent plant in Düsseldorf-Holthausen, the completely refurbished upgraded laboratory building for biological and product safety research was successfully commissioned. A second canteen for our employees was also opened.

In 1997, the following major capital investment projects will be completed:

- Facilities in Düsseldorf-Holthausen for the fluidized bed granulation process and for surfactant drying employing innovative processes
- Capacity expansion in Kankakee/USA for the production of dimer acids and their derivatives, products with wide ranging applications in the printing industry and in the manufacture of adhesives
- A fatty acid cracker, and additional capacity to remove bottlenecks in the oleochemical production facilities in Cincinnati/USA
- Development of an adhesives production capability in South Korea.

In addition, a number of further environmental protection projects representing a major total investment volume are planned for our Düsseldorf parent plant.

Expenditure on research and development

Expenditure on research and development by the Henkel Group was 9 percent up on last year at DM 401 million. This increase is substantially attributable to the integration of Schwarzkopf. The figure represents a proportion of 2.5 percent of sales revenue. In addition, a total of DM 161 million was spent on technical services.

Applying the modern methods of research management, we have succeeded in ensuring maximum efficiency in the allocation of our research and development resources. Through the introduction of specific parameters, we were also successful in tracking important phases of the innovation process on the basis of quantification tools. New knowledge gained from explorative research was widely disseminated throughout the Group with the aim of achieving rapid utilization in the development of new and successful products.

Our research and development activities are described in detail in the "[Research and Technology](#)" section.

Advances in environmental protection

Since 1992, we have published an annual Environment Report which appears at the same time as the Annual Report and covers all the many environmental protection activities of the Henkel Group.

The Environment Report effectively documents the progress which we have made in the fields of health, safety and environmental protection in relation to our products and production activities worldwide. We also report on work done in the field of environmental protection in the individual plants, and describe the structure and development of our Group-wide, systematic environmental management system SHE - Safety, Health, Environment - which serves to underpin our claim to ecological leadership within our sphere of operation. The number of environmental goals formulated for our various sites has undergone a significant increase; and for the first time, product-related environmental objectives have also been included in quantifiable form.

During the year under review, the first sites of the Henkel Group in Germany passed their environmental audits and published their own environmental declarations: in June 1996, Kepec GmbH, Siegburg, a manufacturer of [chemical products](#), was certified in accordance with the ecological audit directive of the European Union; this was followed in November by Henkel's largest production plant in Düsseldorf-Holthausen, and also Collardin GmbH, Herborn-Schönbach, which manufactures products for metal surface treatment applications. At the time, Collardin was also registered as conforming to the worldwide environmental management standard DIN EN ISO 14001.

Outlook

For 1997, we expect a somewhat higher rate of economic growth both in Germany and also in the rest of Europe. The high level of unemployment will, however, continue to check the rise in consumer expenditure. For North America and Southeast Asia, we expect to see a continuation of the positive economic developments indicated by the growth achieved in 1996.

The business situation of Henkel will be significantly influenced in 1997 by its two major acquisitions, namely Loctite and Novamax. We expect these and the other acquisitions to result in a corresponding increase in Group sales revenue; however, we also expect to see growth in our organic businesses and a further strengthening of our market positions.

In 1997, our activities will be concentrated on the following projects:

- Integration of the acquisitions effected in the year under review, particularly Loctite and Novamax
- Realignment of our chemical business
- Further improvements in the degree to which we work together with our internal and external customers under the motto "Focus on Cooperation".

We will be pursuing a dual strategy in relation to our **chemical products**: For our oleochemical base materials, we shall be endeavoring to improve production cost-efficiency to the point where it is the best in the market. With our technological lead, even greater utilization of the synergistic advantages available to our production sites, and a further increase in efficiency achieved through the effective elimination of undue complexities, we are confident that we shall achieve this goal. The second part of the strategy involves concentration on specialty products. Examples include the skincare and other specialties for the cosmetics industry, natural anti-oxidants such as vitamin E, and the new alkyl polyglycoside (APG) class of surfactants.

We consider it a priority task for all our divisions to develop customer-oriented specialty products in order to further improve our market positions, increase profitability, and thus achieve a higher level of return.

A major objective of the Company is to ensure an appropriate return to our shareholders in the form of dividends and increases in our share price. This is the core aspect of our shareholder value program which we presented in April 1996. All our businesses, acquisitions and investments are assessed according to the extent to which the ensuing returns on capital correspond to the yield levels defined by the capital market. Henkel's goal is to achieve by the year 2000 a return on equity capital of 15 percent and a net return on sales of 4.5 percent. Earnings per share should also increase on an annual basis at a double-digit percentage rate.

In 1997, we find we are already en route to achieving these objectives.

Dividend

The unappropriated profit of Henkel KGaA amounts to DM 181 million. Our recommendation to the Annual General Meeting will be for a dividend of DM 1.20 to be paid on the ordinary shares, and a dividend of DM 1.30 to be paid on the preferred shares for each share of DM 5.00 par value held. A portion of the dividend this year emanates from foreign earnings, and this does not attract a tax credit. The gross distribution for shareholders liable to tax at the full rate who are entitled to the tax credit, i.e. the cash dividend plus tax credit, totals DM 1.57 on each ordinary share and DM 1.70 on each preferred share.

After deducting minority interests of DM 70 million and total dividends of DM 181 million from consolidated net earnings of DM 515 million, there remains within the Company a balance of DM 264 million which will serve to strengthen Henkel's reserves.

Henkel KGaA Dividend in DM

	1992	1993	1994	1995	1996
per DM 5 ordinary share	0.70	0.70	0.90	1.05	1.20*
with tax credit	1.09	1.00	1.29	1.50	1.57
per DM 5 preferred share	1.00	1.00	1.10	1.15	1.30*
with tax credit	1.56	1.43	1.57	1.64	1.70

*recommendation

Financial Performance

The corporate sector Finance is again reporting a sound balance sheet structure for fiscal 1996. The Company's good performance is underpinned by the ambitious shareholder value program which is laying down targets for the Company's worldwide activities. Our financial goals set a stimulating challenge for the future.

Henkel Group Financial Key Figures by Field of Activity

	Chemical Products	Metall-chemie/ Hygiene	Industrial Adhesives/ Techn. Consumer Products	Brand-name products	Other*	Group
DM millions						
Sales	4,186	2,458	2,505	6,972	180	16,301
Change from previous year	+ 4%	+ 6%	+ 16%	+ 27%	- 16%	+ 15%
Operating profit	158	163	207	273	- 57	744
Change from previous year **	- 15%	+ 24%	+ 4%	+ 14%	- 84%	+ 3%
Return on sales	3.8%	6.6%	8.3%	3.9%	- 32%	4.6%
Net operating assets employed	2,998	850	1,160	3,160	118	8,286
Return on capital	5.3%	19.1%	17.8%	8.6%	- 48%	9.0%
Depreciation	338	96	127	399	12	972
incl. amortization of goodwill	8	4	14	73	-	99
Capital expenditure ***	348	255	231	537	-	1,371

* secondary activities and general expenses

** changes in relation to previous year figures adjusted to match the more precise allocation of fixed asset depreciation charges

*** excluding financial assets

Segment reporting

(Preface)

We have substantially expanded our reporting by segment. The purpose of this - as already announced as part of our shareholder value program - is to give better insight into the structure of the Company.

Earnings from **chemical products** fell by 15 percent to DM 158 million on sales up 4 percent at DM 4,186 million. Business was affected by lower volumes and price discounting in oleochemical base materials - **fatty acids** and fatty alcohols - and by higher raw material costs. Despite this, market shares were maintained and in some cases further increased. **Capital expenditure** was covered by depreciation charges.

The 6 percent increase in sales of **metal chemicals** and **industrial and institutional hygiene** products to DM 2,458 million was accompanied by a 24 percent improvement in earnings to DM 163 million. Both product sectors contributed double-digit growth to this very positive earnings performance, which was attributable to gains in market share, price increases and improved cost structures.

Industrial adhesives and **technical consumer products** increased sales by 16 percent to DM 2,505 million. With a 4 percent improvement in operating profit to DM 207 million, this field of activity continued to generate a high level of earnings and return on sales.

Brand-name products - household detergents, dishwashing products and cleansers, and toiletries - boosted sales by no less than 27 percent to DM 6,972 million, while operating profits were 14 percent up at DM 273 million. The rapid utilization of the synergy potential from the integration of Schwarzkopf made a major contribution to the improvement in earnings in the cosmetics sector. Detergents also recorded an improvement in earnings in the organic business, but this was partly obscured by increased restructuring costs.

Cash flow statement

The cash flow statement has been prepared, as in the previous year, in accordance with International Accounting Standards (IAS). This format is now generally accepted around the world and is also recommended by the Institut

der Wirtschaftsprüfer (the professional accountancy body in Germany). This method of presentation has

the advantage of classifying cash flows between operating, investing and financing activities.

Cash flow increased by 20 percent compared with the previous year's figure to DM 1,498 million. As a proportion of sales it was 9.2 percent. **Capital expenditure** on tangible **fixed assets** and the extra funding required for **current assets** were financed in full out of cash flow.

The financing required for the acquisition of Novamax and the purchase of the remaining shares in Schwarzkopf came largely from a corresponding increase in bank loans. Funds were also released by the sale of our participation in

Bombрил. Liquid funds and marketable securities increased by DM 163 million.

Henkel Group Cash Flow Statement in DM millions		
	1996	1995
Net earnings	515	488
Depreciation of fixed assets	+ 982	+ 804
Change in long-term provisions	+ 139	+ 70
Gains from disposals of fixed assets	- 61	- 25
Equity income less dividends	- 77	- 88
Cash flow	1,498	1,249
Change in inventories	- 53	- 104
Change in receivables and other assets	- 296	- 123
Changes in liabilities and short-term provisions	+ 343	+ 260
Net cash flow from normal operating activities	1,492	1,282
Capital expenditure on intangible assets*	- 516	- 292
Capital expenditure on tangible assets	- 855	- 952
Capital expenditure on financial assets	- 259	- 865
Proceeds from disposals of fixed assets	+ 195	+ 201
Net cash flow from investing activities	- 1,435	- 1,908
Issue/Redemption of bonds	+ 8	+ 400
Change in other financial liabilities	+ 352	+ 165
Henkel KGaA dividends	- 160	- 145
Subsidiary company dividends (to other shareholders)	- 33	- 25
Other financing transactions	- 76	+ 33
Net cash flow from financing activities	+ 91	+ 428
Change in financial position involving movements of cash	+ 148	- 198
Effect of exchange rate changes on cash	+ 15	- 1
Change in liquid funds and marketable securities	+ 163	- 199

* additions, including goodwill from company takeovers

Total assets boosted by acquisitions

Total assets rose by 16 percent to DM 13,444 million. The increase in **fixed assets** was chiefly due to the first-time consolidation of the Schwarzkopf Group, including the goodwill on the remaining shares, and to the acquisition of

Novamax (included in financial assets). Financial assets were reduced by the sale of the participation in Bombril. Receivables were higher owing to the increase in sales and were more than 60 percent financed by increased trade accounts and notes payable. The increase in financial liabilities was connected with financing the acquisition of Novamax and the purchase of the remaining Schwarzkopf shares.

Purchased goodwill amounting to DM 1,114 million has been capitalized in 1996 and is being amortized in subsequent years.

The shareholders' equity (including participating loans and certificates) went up by DM 513 million during the year under review. The increase included favorable exchange rate fluctuations from foreign [currency translation](#). The equity ratio has gone down to 35.8 percent owing to the increase in total assets. Pension and other provisions increased by DM 465 million to DM 3,990 million; their proportion of total assets has gone down to 29.7 percent. The return on capital was 11.9 percent (1995: 12.3 percent) and the total return on investment amounted to 8.3 percent (1995: 8.9 percent).

Henkel Group Balance Sheet Structure

	Dec. 31, 1996	Dec. 31, 1995
Total assets (DM mill.)	13,444	11,620
as % of total assets:		
Fixed assets	55.9	56.4
Inventories	15.7	16.8
Liquid funds and receivables	28.4	26.8
Shareholders' equity	35.8	37.0
Long-term borrowings	21.9	20.6
Short-term borrowings	42.3	42.4

Henkel Shares

Outstanding performance in 1996

Henkel shareholders have seen their preferred shares yield a return of 43 percent in 1996. This figure represents the rise in share price including the dividend. This good performance shows that our shareholder value program has been very well received by investors. The excellent performance of the Henkel share price has been helped by that of the German stock market as a whole, which had a record year in 1996. The German stock index DAX gained around 28 percent in value last year.

Over the long term since 1985, the average yield on Henkel shares for investors who acquired the shares at their original issue price has been 11.8 percent. The average yield on the DAX index over the same period has been 8.4 percent.

Ordinary shares listed on the stock exchange

Last year, Henkel KGaA offered ordinary shares to shareholders other than the Henkel family for the first time. All holders of preferred shares were given the opportunity to convert 10 percent of their preferred shares into ordinary shares. All the ordinary shares were admitted to trading on the stock exchanges in Frankfurt and Düsseldorf and in Switzerland.

In conjunction with the conversion offer we have reduced the par value of Henkel shares from DM 50 to DM 5 each. This is of particular benefit to private shareholders because it makes it even easier to invest in Henkel shares. It also makes Henkel shares more easily comparable internationally.

Key Data on Henkel shares in DM

	1996	1995
DVFA/SG earnings per share	3.70	3.35
Published net earnings per share	3.53	3.34
Cash flow per share	10.26	8.55
Shareholders' equity per share	31.62	27.90
Share price at year end		
Ordinary shares	73.70	-
Preferred shares	75.80	53.80
High for the year		
Ordinary shares	75.80	-
Preferred shares	77.70	58.35
Low for the year		
Ordinary shares	60.50	-
Preferred shares	54.40	50.80
Price/earnings ratio at year end		
Ordinary shares	19.92	-
Preferred shares	20.49	16.06
Price/cash flow ratio at year end		
Ordinary shares	7.18	-
Preferred shares	7.39	6.29
Number of shares (in millions)	146.0	146.0
Ordinary shares	86.6	80.0
Preferred shares	59.4	66.0
Market capitalization at year end (DM mill.)	10,885	7,855

Earnings per share (on DVFA/SG basis)

	1996	1995
	DM mill.	DM mill.
Published net earnings	515	488
Adjustments (after tax)	+ 99	+ 59
Minority interests in profits (less losses)	- 70	- 55
Earnings	544	492
Number of shares in millions (DM 5 each)	146.0	146.0
Earnings per share	3.70 DM	3.35 DM

Henkel shares in the USA

In order to make Henkel shares more accessible to new investors in the USA we have launched ADR (American Depository Receipt) programs for the preferred and ordinary shares of Henkel KGaA in that country. American Depository Receipts are documentary certificates issued against shares of a foreign company which are placed and traded in the USA instead of the shares themselves. A great many institutional investors in the USA are not allowed under their by-laws or statutory regulations to buy foreign shares. The certificates are regarded as American securities.

Strategy aimed at shareholder value

In spring 1996, we announced a shareholder value program which incorporates the following core statements:

- Shareholders should earn a return on their capital invested in the Company in line with market conditions at stock market values. The yardstick for evaluating the return on our operating activities is 14 percent before tax, based on net operating assets valued at market value.
- Earnings per share should grow on average at a double-digit rate each year.
- By the year 2000 we are aiming for a return on shareholders' equity of 15 percent and a net return on sales of 4.5 percent.

An incentive scheme has been introduced for senior executives which provides for payment of an additional bonus if the Henkel share price outperforms the DAX within a certain period.

In view of the increasing amount of criticism being heard in the public debate about "shareholder value" we think it important to emphasize that Henkel is committed to a long-term and sustained increase in shareholder value. This is the best way of fulfilling the expectations and requirements of shareholders, customers, employees, suppliers and creditors alike.

Investor relations activities intensified

We have responded to the much increased interest in Henkel shown by institutional investors, private investors and financial analysts by further intensifying our activities in the field of investor relations. This applies particularly to the one-on-one meetings, investor meetings and presentations held at important financial centers which provide the opportunity for intensive discussions with management. It has also included our first fall press conference, followed by an analysts' meeting at one of the Henkel Group's sites abroad - Henkel Austria in Vienna - coupled with a visit to our Hungarian subsidiary in Magyarorszàg near Budapest. The success of this event has strengthened our intention to hold further such events at foreign sites of the Henkel Group in order to emphasize in particular the international nature of our activities.

In a research paper published by Deutsche Morgan Grenfell in December 1996 entitled "Shareholder value in Germany" Henkel was ranked fourth out of about 100 industrial German companies in the field of investor relations and was rated one of the "IR flagships" in Germany. This spurs us on in our efforts to keep shareholders and other interested parties comprehensively and frankly informed about the situation and prospects of the Company and thereby contribute to an appropriate evaluation of Henkel shares.

Research and Technology

[\(Expenditure on research and development, Report of the Supervisory Board\)](#)

Research and Technology serve to meet the central challenge of the market: Namely to respond to specific customer requirements with innovative developments. The subjects of research must be market-aligned if they are to lead to success. LIX - "Liquid Ion Exchange" is a good example. This process involves the use of liquid ion exchangers for the post-conditioning of etching solutions from PCB manufacturing. LIX enables copper of high purity to be recovered. The process is predestined to gain major importance in the recycling of computer components.

Greater customer alignment in all our projects continued to be one of the major objectives of our research and development effort.

Innovative products with advanced surfactants

Our new generation of surfactants from renewable raw materials - [alkyl polyglycosides \(APG\)](#) - is continuing its conquest of the market. The unique performance profile of this class of surfactants facilitates the formulation of particularly dermatologically compatible dishwashing detergents and household cleansers.

We proceeded with the incorporation of [APG](#) in hair cosmetic formulations.

November 1996 saw the launch of Persil für Feines (Persil for delicates). This specialty detergent is the first washing powder to contain [APG](#). In this formulation, the new surfactant combination results in the development of a particularly stable and thick foam which effectively protects delicate textiles from the wear and tear which results from the mechanical action of the washing machine.

The year under review witnessed the development of further predried and pourable surfactant granulates for washing and cleaning detergent powders. The production of a high-performance and extrudable surfactant blend of fatty alcohol sulfate, ether sulfate and [APG](#) for employment in specialty detergents provides an outstanding example of the kind of success which can be achieved.

Environmental obligations

Aside from increasing customer benefit, our research and development work also has to focus on further improving environmental protection, occupational safety and consumer protection in the manufacture, application and disposal of our products.

We developed alternative labeling processes in order to enable PET bottles (bottles of polyethylene terephthalate) to be repeatedly reused. An alkali-soluble hotmelt adhesive enables the use of film labels on PET bottles. Unlike conventional adhesives, this hotmelt can be broken down in bottle washing facilities. Moreover, in this process the film labels are separated for recovery or thermal waste recycling. This reduces environmental burden from additional waste volume.

Innovative products with improved environmental compatibility help our customers to reduce their system costs. The substitution of heavy metals in the pretreatment processes applied to car bodies and architectural aluminum products underwent further advancement. New biodegradable polymers have also been developed for conditioning hard water.

In relation to research and development in the field of cosmetics and toiletries, 1996 was marked by the integration of Schwarzkopf and the establishment of a number of new centers of competence. We have started work on harmonizing the Schwarzkopf and Henkel products with a view to streamlining our range of raw materials and product portfolio. Synergy utilization is already progressing well. Work was completed on the conversion of a large number of formulations to a new basis featuring substantially improved biological degradability. The entire product range has now been revised in respect of effectiveness, application safety and ecological compatibility.

A research project has been instituted with the purpose of further increasing the use of renewable oleochemical raw materials in adhesives and sealants. The project is being sponsored out of public funds.

High-tech input for more efficient products and processes

Rolling oils featuring an innovative combination of emulsifiers have been developed for the cold-rolling of thin sheet metal.

At the Fragrance Center, Krefeld, we have taken on stream a modern blending facility for the manufacture of perfume oils. This facility is capable of blending more than 200 individual components under computer control.

Various automatic analytical processes have been developed over the years, which facilitate optimized process control combined with extremely rapid raw material and final product inspection. Using special hardware and software, we are developing a data network which will enable the provision of a fast central research service from Düsseldorf to our [affiliated companies](#) for these automated systems. This will bring improvements in product quality, reductions in analysis time, improved production plant efficiency and lower energy consumption levels, the cumulative effect of which will be to reduce manufacturing costs.

Working together with a number of major customers and machine manufacturers, Henkel-Ecolab has developed a sterile process for the cold bottling of microbiologically sensitive beverages. The concept encompasses the entire bottling line from bottle input and handling to the filling and bottle sealing processes.

We have succeeded, through systematic investigation of fundamental physico-chemical interrelationships, in developing a new emulsifying process. This facilitates the manufacture of micro-emulsions with particularly advantageous properties and has been implemented for both cosmetic and engineering applications.

Fritz Henkel Award 1996: Success through market-relevant innovation

Only when ideas and their implementation go hand-in-hand can innovations be successful in the marketplace. Various interdisciplinary teams were assessed against these criteria and the Fritz Henkel Award for Innovation was duly conferred for the fifteenth time.

The projects rewarded in 1996 were as follows: New wax-containing defoaming agents for detergents, which are particularly effective at low temperatures; Highly concentrated compound with sparkling pearl appearance; Micro-fine emulsions; Esterquats offering exceptional biological degradability and enhanced dermatological compatibility.

Employees

Strengthening the Company's competitive edge is also a central objective of our personnel policy. The capabilities, performance and motivation of all our Employees were further promoted by the institution of a number of carefully selected measures. In 1996, our Year of Sales, we also focused personnel policy on improving cooperation at all levels within the Group, and on increasing awareness of the need for effective customer/supplier relationships in both the external and internal fields.

Movements in personnel numbers

The total workforce at the Henkel Group rose in 1996 by 5,001 to 46,665. This increase was largely due to the takeover of the Schwarzkopf Group with its approx. 3,600 employees, and the incorporation of three further joint ventures in China with a total workforce of 1,370. At our German companies, staffing levels were further reduced in the wake of an ongoing restructuring process. The proportion of employees outside Germany rose in 1996 from 64 to 66 percent. This makes Henkel one of the most internationally staffed companies in Germany.

Management structure improved

Streamlined hierarchies, leaner management, greater delegation of responsibility and a wider span of control have led to an increase in the requirements placed on each individual employee. Our working processes have become faster. Clear target agreements, system alignment to customer requirements and a significant shift from a task-based to a results-based assessment regime have substantially increased the efficiency of our management processes. At the same time, the flattening-out of the hierarchical structure has created increased scope for individual initiative and the tackling of challenging tasks. In order to make all this possible, it was necessary to expand the qualification opportunities available to our employees, and to align these to the requirements of our new order.

Teamwork and leadership

In the year under review, we carried out another worldwide management survey. The results confirm a high level of willingness to be actively involved in bringing the changes within the Henkel Group. From the outcome of the survey it was apparent that there were three target areas which were particularly deserving of our attention: Increasing our innovative strengths; further enhancing efficiency; and improving cooperation within the Henkel Group. We have established a number of international project groups whose brief it is to elaborate the specific measures required to meet these objectives. In addition, a management style analysis was also introduced. It involves the assessment of the managerial abilities of superiors by their supervised employees.

International know-how transfer

By ensuring fast and comprehensive interchange of expertise and experience on an international basis, we ensure that our employees are able quickly to achieve the performance and market objectives related to their respective regions. In the past year, 229 employees took part in a range of international know-how transfer programs. Our managers are being involved to an ever increasing extent in interdisciplinary and international teams with the result that people offering different abilities and approaches can be brought together to develop new solutions and innovations.

Our management seminars play an important role in the formation of effective cross-border and interdivisional networks. Nowadays we hold seminars for junior managers, a middle management study group and an INSEAD seminar for senior managers using English as the presentation language.

Optimum utilization of our "human capital" worldwide can only be achieved through effective identification of our employees' potential. Within the framework of a worldwide human resources analysis, we carried out for the first time in 1996 a complete management review covering the senior managerial staff of the entire Henkel Group. This provides an important basis for personnel policy decisions and assists in improving equality of opportunity.

Focusing on targets and results

Our remuneration policy is based on the principle of performance-related reward and market alignment. Our incentives system plays an important role within this overall scheme, rewarding on a graduated basis the achievement of company, team and/or individual targets. Last year in Germany this system was extended to include not only our senior managers but also those other often key employees to whom the regular pay scale does not apply.

Innovation potential fully utilized

Again in 1996, our employees participated in the improvement of our working and production processes through the submission of a large number of useful suggestions.

In the USA, an innovative concept entitled "Henkel Best Practices" was introduced to accelerate the know-how transfer between employees of different organizational units. This concept is based on the idea that successful and effective working practices, applied in the various fields of activity, and also the results thereof, should be made available to other entities within the network of companies which makes up the Henkel Group.

Participation of our employees in the works suggestions scheme at our Düsseldorf-Holthausen plant rose in 1996 by 33 percent. A total of 3,027 improvement suggestions was submitted, and those implemented led to savings amounting to DM 5 million in just one year.

Safety at work

1996 saw a further improvement in work safety standards in all the companies of the Henkel Group. In Germany, the number of notifiable accidents decreased by 22 percent. A higher technical safety standard and intensive training and information activities all contributed to this gratifying result.

Changes in Employee Numbers

	Dec. 31, 1996	Dec. 31, 1995
Germany	15,715	14,954
of which Henkel KGaA	9,098	9,474
Abroad	30,950	26,710

Total

46,665

41,664

Greater attendance time flexibility

In order better to utilize our production capacities, a greater degree of flexibility was introduced into the attendance time requirements applied in our German operations. To this end, the daily attendance timeframe of our employees was expanded and a greater degree of period differentiation was introduced for the individual organizational units. This realignment also enables us to serve our customers more effectively. The number of remunerated overtime hours has also been halved and the part-time quota further increased.

Increased attendance time flexibility is also gaining in importance in our foreign subsidiaries.

Training intensified

The number of young people undergoing training in Germany at the end of 1996 totaled 418. Of this figure, the number relating to new apprentices taken on in the course of the year under review was 143. Our structure in 1996 revealed 43 percent of these young people preparing for the chemical professions, followed by commercial (30 percent) and engineering/technical (27 percent) vocations. Of those completing their training in 1996, 82 percent were taken on by the Company on a permanent basis.

A word of thanks to our employees

Thanks to the high level of motivation and performance of our workforce worldwide, we were again successful in meeting the challenges of the market and in achieving good results during the year under review. We would therefore like to express our gratitude to all the employees of the Henkel Group for their dedication and hard work. Our thanks also go to the employee representative bodies for their constructive and loyal cooperation.

Chemical Products

([Sales up 15 percent](#), [Sales performance by region](#), [Advances in environmental protection](#), [Outlook](#), [Financial Performance](#), [Segment reporting](#), [Metal Chemicals](#), [Degussa AG via GFC Gesellschaft für Chemiewerte mbH](#), [Düsseldorf, Germany](#), [Ecolab Inc., St. Paul/Minnesota, USA](#), [\(24\) Sales](#), [Management Board of Henkel KGaA](#))

Henkel is the world's largest producer of [oleochemicals](#) based on renewable raw materials, i.e. vegetable and animal oils and fats. The Chemical Products business sector has set its sights on increasing in Europe the utilization of the renewable sunflower as an important oil donor of the future. New strains offering a high oleic acid content are already available. For agriculture, this means greater opportunity for the sensible employment of set-aside tracts of land.

[Oleochemicals](#) product groups:

Fatty acids; [glycerine](#) and fatty acid derivatives; [fatty alcohols](#) and their derivatives; products for the cosmetics, toiletries and pharmaceutical industries, for detergents and household cleansers; aroma chemicals/perfume compositions; food and feedstuff [additives](#); natural-source vitamin E and [beta carotene](#).

[Organic Specialty Chemicals](#) product groups:

Base materials and [additives](#) for plastics, paints and coatings; auxiliary products for textile, leather and paper production; specialty products for mining, oil drilling, and for lubricants, for plant care formulations and the construction industry.

[Inorganic Products:](#)

Water glass

The downturn in demand which set in during the second half of 1995 continued through to the first few months of 1996 - particularly in Europe. The following months saw a stabilization of business activity. The year as a whole produced a growth in sales of 4 percent.

In the case of our oleochemical base materials business, sales were substantially down on last time owing to competition and demand-related volume decreases and price reductions. The margins for our base surfactants for the detergents and cosmetics industry likewise remained unsatisfactory. High levels of overcapacity and strong competition prevented the implementation of necessary price increases. Our Care Chemicals unit recorded gratifying growth rates. The main contributors to these results were our specialty products for the cosmetics industry, vitamin E and our food and feedstuff [additives](#) business. Our new class of alkyl polyglycoside surfactants ([APG](#)) continued to produce encouraging growth rates.

Business at [Organic Specialty Chemicals](#) expanded further during the year under review. The growth in sales was largely due to results achieved with our plastics, paints and coatings product group. Developments in the case of our mining and oil field chemicals, and also our paper auxiliary products were less encouraging. Restructuring measures in individual business units resulted in an improvement in profitability.

Oleochemicals

(Sales up 15 percent, Chemical Products, Operating Management of Henkel KGaA)

Demand in the markets for our oleochemical products varied considerably, with competitive pressures generally remaining high. Overall, our oleochemicals business achieved a growth in sales of 3 percent.

While our German activities saw revenue decrease, business elsewhere in Europe stabilized. [Glycerine](#) prices underwent a decrease, and this particularly affected results in Germany. The degree of growth achieved overseas was again encouraging.

Our **oleochemical base materials** suffered from earnings problems. Owing to competitive pressures, increases in raw material prices could not be passed on to the market. Aside from the drop in the glycerine price, weakening demand for fatty alcohols - particularly in Europe - resulted in a fall in sales. Nevertheless, we succeeded in maintaining our market positions.

The 1996 results of our **Care Chemicals** unit reflected a brisk demand for oleochemical derivatives for the manufacture of cosmetics, detergents and household cleansers. Our leading market position was further expanded.

In spite of the persistence of ruinous competitive practices resulting from worldwide overcapacity in the production of fatty alcohol ether sulfates, further expansion in our specialty products business resulted in gratifying increases in sales. Significant progress was made in Europe, North America and Southeast Asia.

There were further advances in the application of [APG](#) in the cosmetics sector, although the breakthrough into the detergents and household cleansers market is still awaited. Our strong position in relation to [fatty alcohol sulfates](#) in the European detergents industry was further consolidated.

Business performance in respect of our aroma chemicals/perfume compositions, and particularly Ambroxan, was good. Around the middle of the year, a new sandalwood aroma chemical was successfully launched onto the market.

On the anti-oxidants sector, sales in vitamin E were encouraging in all segments of the market, while those in natural-source [beta carotene](#) remained below the high levels expected. Overall, however, the product group achieved a double-digit growth in sales.

Good growth rates were achieved on the back of the increasing globalization of our food [additives](#) business, and particularly as a result of further market development in eastern Europe.

Organic Specialty Chemicals

(Sales up 15 percent, Chemical Products, Operating Management of Henkel KGaA)

Results at Organic Specialty Chemicals during the year under review were adversely affected by a low level of activity in the construction sector and the structural changes taking place in the textile industry. Nevertheless, a growth in sales of 6 percent was achieved. The main contributors were our businesses in Europe outside Germany, and in North America and Asia; sales in Germany underwent a decline.

In spite of the unfavorable situation in relation to Europe's construction industry, our plastics, paints and coatings business saw sales increase. Even in the case of textile auxiliary products, we succeeded in expanding sales in spite of the difficult market conditions.

Our leather auxiliary products business was fundamentally restructured so as to enable us to concentrate on the major leather markets. As a result, our activities were rendered more profitable.

In the case of paper auxiliary products, we were able to make further advances in both sales revenue and earnings in Europe thanks to innovative products and effective market development. We plan to divest this business sector in North America, however. Developments in Asia were encouraging.

In the case of our specialty chemicals for copper extraction, a long-term contract was concluded in the USA with one of the world's largest copper producers. On the petroleum production sector, further progress was made with our products - particularly in North America - although the availability of cheaper alternatives adversely affected the results achieved with our ecologically compatible oil well fluids.

The sales performance of our synthetic lubricant products - both in formulations and as components - was very positive in Europe and North America.

Outlook

Our natural raw materials base remains one of our major strengths; this, in conjunction with the global structure of our businesses, will open up good opportunities for growth in the long term.

As a result of a comprehensive business process reengineering program and the establishment of leaner organizational structures, we can look forward to further improvements in efficiency and greater utilization of the potential available for cost-cutting. This will result in a general increase in our competitiveness.

Metal Chemicals

(Sales up 15 percent, Sales performance by region, Major acquisitions and joint ventures, Segment reporting, America, Production, Outlook, (24) Sales, Report of the Supervisory Board, Management Board of Henkel KGaA, December 1996/January 1997, Düsseldorf, January 1997, Texas, February 1997, India, March 1997, Düsseldorf)

Our Metal Chemicals business sector has greatly strengthened its worldwide market position through the acquisition of Novamax Technologies Corporation. This U. S. company provides the perfect complement to our portfolio with a comprehensive range of products, major technologies, new customers and qualified and motivated employees. Our basis for effective key account management in relation to major international customers will be enhanced through the activities pursued by Novamax in 23 different countries.

Product groups:

[Chemical products](#) and application systems for the surface treatment of metals and metal substitutes; lubricants; cleaning products; corrosion inhibitors; products for conversion processing and water treatment; engineering services; antifreeze agents and corrosion inhibitors for motor vehicle cooling systems; CFC substitutes for cleaning

applications; polyurethane adhesives and sealants; epoxide structural adhesives; PVC and SMA plastisols; dispersion adhesives; [acrylates](#).

Our Metal Chemicals business sector again performed exceptionally well in 1996. All the strategic business units and product groups contributed in the achievement of a worldwide increase in sales revenue of 10 percent.

Our activities in North and South America, Italy, Spain, Turkey, Australia, China and Singapore were particularly successful, with double-digit growth rates being registered in each case. We were able to gain further market share worldwide in all our core businesses. With the acquisition of Novamax, we have now taken a further step toward enhancing our presence in all the markets which are of significance for us.

Europe

The driving force behind the growth recorded in our European businesses in 1996 was again the automotive sector.

With improved services, an expanded product portfolio and a denser regional presence we were able to win a number of new contracts with notable automobile manufacturers. The merger in 1995 of our Teroson adhesive and sealant operations with the metal pretreatment businesses to serve the automotive industry also had a positive effect.

A new generation of underbody protection products and structure adhesives, and also more environmentally compatible pretreatment products and processes, were key to the achievement of this market success.

Our general metal industry business also performed better than last time. In the strip steel sector, a number of new and important customers were gained in Spain, Turkey and Scandinavia.

Business with the automotive components industry developed well throughout Europe. Our market positions in the beverage can industry were maintained at a high level. Sales in the aluminum industry suffered from the general weakness of the building sector.

We were able to penetrate new markets with our water treatment activities, winning contracts for major power stations and refineries in France, Hungary and Turkey.

America

The markets of North America which are relevant for our [metal chemicals](#) businesses underwent only a moderate rate of growth. Our results were, however, disproportionately high.

As a result of market share gains, sales were substantially up on last time. Our automotive business profited mainly from the acquisition of new, and the extension of existing, chemical systems management (CSM) contracts, and performance was very positive. Our Teroson business, already going well, was further strengthened through the acquisition of the Thiem Automotive Division.

New concepts for process improvement boosted the expansion of our market positions in the steel coil industry. Our beverage can business gained from the successful introduction of new pretreatment products.

Additional sales in our comprehensive system packages were also achieved in the components industries.

In **Latin America** we recorded an exceptionally high growth in sales. This was partially due to the takeover of the companies Argenpisa and Takiplas which operate in the field of adhesives, sealants and coating materials for the automotive industry. However, developments in relation to our existing business were also very favorable. New supply contracts with customers in the automotive, beverage can and steel processing industries further boosted results.

Asia/Pacific

([Outlook](#), [Industrial Adhesives](#))

1996 saw the Asia/Pacific region continue to grow apace. Our sales in the automotive industry in China profited from an increase in turnover at VW and also supplies to Citroën as a new customer.

With a contract being concluded for a further three strip steel lines, our steel activities in Taiwan and South Korea were particularly successful. Our core activities in Southeast Asia resulted in gratifying increases in sales revenue and market share gains in the household appliances sector, automotive components industry and steel products.

In Japan, sales in specialty products designed to replace CFC-containing cleaning agents underwent a further increase. However, this improvement was not enough to offset the downturn in business suffered in the automotive and electronic sectors.

As a result of the establishment of two new joint ventures in India, we have succeeded in gaining a foothold on the market and in creating a good basis for further market development.

Production

Our objective to have all our European sites inspected and certified to ISO 9000 has now been achieved. All our [Metal Chemicals](#) production centers overseas have been registered with the exception of our sites in Venezuela, Argentina, Malaysia and China - which are due to be certified in 1997. A new plant has been taken on stream in Malaysia in order to enable us to utilize our opportunities in this growth market to the full.

Technology

We have developed for the new E class of Mercedes-Benz a special windshield adhesive which permits the integration of antennae in the glass panels.

We successfully completed our development work on foaming sealants for filling autobody cavities. Their application substantially reduces noise levels in the passenger compartment.

Outlook

We expect 1997 to produce a further increase in sales and earnings.

Our plans are thus focusing on the following:

- Expansion in business in the growth markets of [Asia/Pacific](#), India, eastern Europe and Latin America
- Reinforcement of our product portfolio in western Europe and North America
- Underpinning our technological leadership, accelerating progress on new projects geared toward environmental compatibility, and reducing system costs
- Launching new products onto the market.

The acquisitions effected in 1996, and particularly that of Novamax, coupled with the utilization of our potential synergies will have a positive effect on both sales and earnings. The integration of our businesses will open up additional opportunity for expanding market positions.

In March 1997, Henkel [Metal Chemicals](#) changed its name. Its new name, [Henkel Surface Technologies](#), better reflects the business sector's true identity. The business sector's claim to be the leading specialist in the chemistry of metal surface treatment remains unchanged.

Major purchase

Novamax Technologies Corporation, domiciled in Atlanta, USA, is an international company with sales of around DM 340 million. Before the takeover by Henkel, it belonged to the Canadian Molson Group. The 800 Novamax employees marketed products and systems for the treatment of metal surfaces in five production centers. The significant improvement in our market positions resulting from this acquisition will open up additional growth potential with manufacturers of aluminum façades, beverage cans, household appliances, agricultural machinery, and also strip steel producers, automobile companies and their components suppliers. The two organizations are to become completely merged by the end of the first half of 1997. So far, the integration process has been harmonious, constructive and problem-free.

Industrial Adhesives/Technical Consumer Products

((24) Sales, Report of the Supervisory Board, Management Board of Henkel KGaA)

The most important event at our **Industrial Adhesives/Technical Consumer Products** business sector was the takeover of the American Loctite Corporation at the turn of 1996/97. As a result, Henkel can now offer its customers an even wider range of technologically highly developed adhesives. Loctite is regarded as an international leader in the manufacture of reactive adhesives. This acquisition also provides Henkel with access to the important American consumer market.

Technical Consumer Products Product groups:

Wallpaper pastes; ceiling, wall covering and tile adhesives; home decoration products; sealants; polyurethane foam fillers; contact adhesives; wood glues; PVC pipe adhesives; flooring adhesives; building chemicals; coatings; automotive after products; superglues; glue sticks and roller applicators; correction products.

Industrial Adhesives Product groups:

Dispersion adhesives; starch-, dextrin- and casein-based adhesives; hotmelts; polyurethane adhesives and sealants; contact adhesives; [anaerobic](#)- and aerobic- curing [acrylates](#); cyanoacrylates; polyamides; epoxide structure adhesives; flock adhesives; rubber-to-metal bonding agents; cable sealing compounds; leather board.

The **Industrial Adhesives/Technical Consumer Products** business sector saw sales increase by 16 percent over last year.

Technical Consumer Products

(Sales up 15 percent, Segment reporting, Industrial Adhesives/Technical Consumer Products, Outlook Technical Consumer Products, Operating Management of Henkel KGaA)

Both sales revenue and earnings again underwent a substantial increase in 1996.

These results were due not only to acquisitions but also to growth in our organic businesses. Our gratifying earnings performance was partly the result of a successfully implemented cost-cutting program. Developments in relation to our businesses in Europe were particularly good, although results in Germany were influenced by the difficulties being endured by the building industry.

Expansion of our activities in the paper, office products and stationery markets continued to be pursued both in Europe and also in many overseas countries following our takeover of the Pelikan businesses.

In North America, we succeeded in significantly expanding our leading position in relation to trade and consumer adhesives through the acquisition of Canadian Adhesives Ltd.

In Shantou, China, a new plant for the production of trade and consumer adhesives went into operation. This

creates ideal conditions for rapid expansion of our businesses in this promising market.

In South Korea, we acquired a plant for the manufacture of building chemicals and flooring adhesives. This will assist us in our endeavors to achieve major expansion of our organic business in this country.

Within the framework of an even more target-led market development program, we have created a number of specialized marketing and sales organizations in order to meet the requirements of individual customer groupings in the trade sector.

Outlook Technical Consumer Products

The next few years will see our [Technical Consumer Products](#) unit continue to concentrate on expanding its overseas business. This strategy for growth is to be implemented by means of product innovations, further acquisitions and strategic alliances. It is here that we see considerable opportunity for further consolidating our excellent level of profitability.

Industrial Adhesives

([Sales up 15 percent](#), [Major acquisitions and joint ventures](#), [Financial Performance](#), [Segment reporting](#), [Industrial Adhesives/Technical Consumer Products](#))

Industrial Adhesives also performed particularly well in 1996. Both our organic businesses and also the integration of companies acquired in 1995 contributed to this success. Our market development activities have concentrated on the rapidly growing markets in Asia, South America and eastern Europe.

Our packaging adhesives business underwent above-average growth. This was particularly due to the introduction of innovative adhesive technologies for packaging systems. As a result of the takeover of United Resin Products, we were able to improve our market position in North America. The acquisition of N.B. Love Adhesives in Australia strengthened our market position in the [Asia/Pacific](#) region.

In the case of our Liofol laminating adhesives, we extended our regional presence in South America through the establishment of the joint venture, Liofol Ltda., in Brazil. Owing to the growing significance of environmental considerations, our laminating adhesives were subjected to an ecological analysis. Our product development activities are focusing on solvent-free and water-based systems.

Our activities in relation to labeling and packaging adhesives, and also those manufactured for the graphic industry, have been further aligned to the requirements of major international customers, and innovative systems for labeling and book-binding have been introduced. We expect these developments to lead to further growth in sales.

The incorporation of the specific know-how of Laesser Klebstoffe AG has substantially improved our position in relation to cigarette adhesives. The combination of market-specific competence and international presence enables us to meet in full the requirements of the worldwide operations of the cigarette industry.

Our wood glues business was effectively strengthened through the successful integration of our 1995 acquisition, Dr. Rudolf Schieber Chem. Fabrik GmbH + Co. KG, now operating under the name Dorus Klebtechnik GmbH + Co. KG.

Innovative technologies have been introduced on an international scale, and these are expected to create exceptional opportunities for growth.

Business in the rubber-to-metal bonding agents sector continued to develop well.

Our specialty adhesives for the cable and electrotechnical industries remain steady in a market characterized by a feeble growth. New products like cable filling compounds and system solutions for water-tight connectors and

cable joints open up promising long-term market prospects.

In the General Industry sector, we continued down the road of business globalization. Significant increases in sales were achieved particularly in the growth markets of eastern Europe and Asia.

The market position of our Industrial Adhesives business has been significantly strengthened by the acquisition of Loctite. Our regional presence has also been enhanced and expanded. Moreover, our previous product range has been ideally complemented, particularly in relation to reactive adhesives. Utilization of the synergy potential associated with this acquisition will considerably improve the earnings potential of the Industrial Adhesives operations.

Outlook Industrial Adhesives

With our research activities aligned to satisfy customer requirements, we are able to ensure that our product portfolio is always in tune with market demand. The enormous range of applications for adhesives, encompassing virtually every sector of industry, ensures that unfavorable economic developments in one segment can be effectively offset by growth in others. This spread of activities also facilitates flexible adaptation to structural changes.

Loctite

The Loctite Corporation - a company with sales of more than US\$ 800 million and a worldwide workforce of 4,500 employees - manufactures high-quality adhesives for a wide range of special applications, including for example the securing of bolted connections; the provision of air-tight seals between machine elements in automotive engineering; and high-performance adhesives for rubber, plastic, glass, for electronics applications and also for DIY applications. More than half the company's sales revenue is earned from industrial customers, around one quarter comes from the consumer markets, and the rest is derived from the automotive aftermarket. In regional terms, more than one third of sales go to North America, and around 40 percent go to Europe.

Cosmetics/Toiletries

[\(Sales up 15 percent, Sales performance by region, Major acquisitions and joint ventures, \(24\) Sales, Management Board of Henkel KGaA, Operating Management of Henkel KGaA\)](#)

The Cosmetics/Toiletries business sector has taken on a new dimension as a result of the Schwarzkopf acquisition. The integration process is proceeding successfully, providing us with an excellent platform for further growth in important markets of the future - particularly in the regions of Southeast Asia and South America. The newly established Schwarzkopf & Henkel Cosmetics operation is Germany's market leader in hair cosmetics.

Product groups:

Toilet soaps; bath and shower products; deodorants; skin creams; skin care products; dental care and oral [hygiene](#) products; hair shampoos and conditioners; hair colorants; hair styling and permanent wave products; perfumes and fragrances; [hair salon products](#).

The Cosmetics/Toiletries business sector enjoyed a successful year with sales almost doubling the figure for 1995. The main factor contributing to this success was the acquisition of the Schwarzkopf Group; this became fully consolidated with effect from January 1996. Results were also boosted by joint ventures in Israel and in the People's Republic of China which were consolidated for the first time. After adjustment for the effect of the acquisitions, the growth rate of our organic businesses amounted to 8 percent.

The consumer climate in the market segments important for us has undergone a slight improvement. With comprehensive product upgrades and an increased marketing budget, we were successful in winning additional market shares. The growth in sales was extensively volume-related. Changes in foreign exchange rates had a

favorable effect on business performance.

Not only in Europe but also in South America and Southeast Asia, the acquisition of Schwarzkopf meant that we were able to take over already well established businesses which ideally complement our own national activities. In Australia, New Zealand and Columbia, we enjoy the position of market leader in a number of important segments. In Venezuela, Japan and - following the establishment of a new joint venture - Israel, we are also represented by companies which provide a solid basis for successful further development. In China, we have attained a good position in the hair coloration sector following the foundation of our third joint venture, Henkel Liyuan Cosmetics.

The most important management task in the year under review was to ensure the successful integration of the Schwarzkopf Group. Measures to realize the synergy potential of this marriage have been instigated according to plan, and the targets set for the first year were successfully achieved - with market results exceeding our expectations. Our international brand leadership strategy covering the entire brand-name products business is centrally coordinated from Düsseldorf. Since January 1, 1997, our joint sales organization for the brand-name products sector has been trading in the most important countries under the name Schwarzkopf & Henkel Cosmetics.

As part of the restructurization of our production activities, we sold the Krefeld plant of Thera Cosmetic GmbH to Dalli-Werke Mäurer & Wirtz GmbH & Co. KG with effect from January 1, 1997. Dalli-Werke will continue full production of our brand-name products in this plant.

German brand-name products markets

The sales revenue earned by our German business passed the billion mark for the first time. With the acquisition of Schwarzkopf, Henkel moved into first position in the hair cosmetics league, and rose to third position on the overall cosmetics market. All the major Schwarzkopf brands were revised. A significant increase in our advertising spending resulted in the acquisition of a greatly strengthened market position.

Henkel Cosmetics set the pace in the market with an international relaunch of its Fa brand and with an anniversary campaign celebrating 50 years of the hair cosmetics brand Poly. This included a comprehensive relaunch of Poly Kur based on an innovative botany concept.

International brand-name products markets

On the international markets, all our [affiliated companies](#) contributed to the successful results achieved. Business performance in Italy was particularly gratifying, with a strengthening of our major national brands, the successful introduction of Fa-Splash and positive developments in the foreign exchange rates leading to an increase in sales of almost 30 percent. There was also a disproportionate increase in our business levels in France. This was predominantly attributable to the successes enjoyed by our oral [hygiene](#) products and the strength of our skincare brand Diadermine. The acquisition of Schwarzkopf meant that our business base was also significantly expanded elsewhere in Europe, particularly in Austria, the Benelux countries and eastern Europe. In Spain, our toothpaste brand Licor de Polo moved up to the number two position on the market, while the price war being waged between major competitors on the skincare market meant that we had to accept a small drop in sales in that segment. In Scandinavia, we achieved an increase in sales commensurate with market growth.

Our business expansion plans for the southeastern Mediterranean region based on acquisitions and the development of our own activities progressed to schedule. The beginning of 1996 saw our market development push start with Turkey and Egypt. Around the middle of the year, we added the Israeli market to the program, gaining access through the establishment of a joint venture.

In the Southeast Asia region, we were able to significantly increase sales through the activities of our joint venture Henkel Kemeng, which mainly markets skincare products, and through incorporation of the local Schwarzkopf businesses. November saw the establishment of the joint venture Henkel Liyuan; this will provide us with an effective avenue for marketing our hair coloration expertise and products in China. Business developments in Australia and New Zealand were well above target.

Hair salon products

(Cosmetics/Toiletries)

We were able to achieve growth of 5 percent in the hair salon business, predominantly as a result of our activities abroad. Our businesses in France, Great Britain, Spain, Latin America and Japan performed well, while our German business stagnated.

Outlook

With the newly created sales and distribution organizations, we intend to further expand on the market successes achieved to date. Our business activities will continue to focus on Europe, although our markets in Southeast Asia and Latin America are increasing in importance.

The greatly increased market significance of our cosmetics business resulting from the Schwarzkopf acquisition provides us with a good basis for further profitable growth. We have earmarked additional resources for research and development.

The hair salon business has become an important source of revenue, particularly in regions overseas. It also offers a number of significant synergies in combination with our brand-name products business.

Detergents/Household Cleansers

(Sales up 15 percent, (24) Sales, Report of the Supervisory Board, Management Board of Henkel KGaA)

The German detergents business of the Detergents/Household Cleansers business sector produced particularly gratifying results in 1996. Much of this success came from harmonizing our triad of major products: With innovative Megaperls versions of our brands Persil, Weisser Riese and Spee, we were able to promote a three-brand strategy. In this particularly important segment of the universal detergents market, Henkel's activities resulted in the achievement of its highest market share for the past years.

Product groups:

Universal detergents; specialty detergents; fabric softeners; dishwashing products; household cleansers; scouring agents; floor and carpet care products; bath and toilet cleansers; glass cleaners and lens wipes; furniture and kitchen care products; shoe care and laundry conditioning products; plant care products.

In 1996, the Detergents/Household Cleansers business sector succeeded in increasing sales by 5 percent over last year.

Universal and specialty detergents

In the case of our universal and specialty detergents, we were able to achieve growth in all the relevant European market segments through wide-ranging relaunch activities and innovations. An increase in overall market volume and positive exchange rate fluctuations provided an additional promotional effect.

In the most important market segment for our universal detergents, we were able to further expand our already very good position in the face of ongoing intensive competition. The market shares of our European brands Persil and Dixan were increased throughout Europe.

In what is still the largest market segment, that of standard powder detergents, we were able to give growth a significant boost, and our position in the compact detergents sector was also further strengthened through the introduction of new Megaperls products.

In the specialty detergents segment, we succeeded in slightly improving our market lead.

Through the introduction of new product variants, we once again succeeded in increasing our market share in the fabric softeners segment as well.

In regional terms, we were particularly successful in Germany and Italy.

The detergents market in Germany was characterized in 1996 by tougher price competition. Thanks to particularly successful marketing activities, we were nevertheless able to further increase our sales and, as a result, significantly expand our leading market position.

Our universal detergents played a particularly important role in the achievement of these successes. In spring 1996, we launched a "three-pronged attack" onto the market with our Persil, Weisser Riese and Spee brands, with the purpose of transferring the successful image of our Megaperls technology already associated with Persil to Weisser Riese and Spee. We also took this opportunity to further improve the already outstanding product quality available with Persil.

The German specialty detergents business also performed extremely well. Perwoll, fewa and Vernel all significantly increased their market shares.

A critical factor in the achievement of our success in Italy was the excellent business performance of our Dixan brand.

There were exceptional increases in sales in both Russia and China (without the newly consolidated joint ventures), and we succeeded in further strengthening our positions in these high-potential detergent markets.

Household cleansers and care products

1996 again saw heavy competition on the European market for household cleansers. In value terms, market growth was no more than sluggish.

We were, however, able to maintain our excellent market position. In the largest market for manual dishwashing liquids, we succeeded in further expanding our lead in Germany. In Austria and France, market share developments were also gratifying.

In the household cleansers market, so characterized by constant innovation, Der General was able to further improve on its position in Germany.

In the European growth market for machine dishwashing detergents, our position in Austria was expanded and that in France was further consolidated. In Germany, strong competitor activity led to losses in market share. We countered this trend in fall 1996 with a significantly improved formulation for our Somat products.

Our household care products were particularly successful in Germany, Austria and Belgium.

New products in the bath and toilet cleansers market led to improvements in both sales and market share, as did the ongoing market successes of our glass cleaners and lens wipes. On the plant care sector, our European market leader Substral showed good performance.

Expansion in growth regions

Outside our traditional markets in Europe, we intend to make full use of the opportunities arising in the growth markets of other regions. The most promising target areas for us are eastern Europe, eastern Asia with particular emphasis on China, the Near and Middle East, and India.

A fourth joint venture was founded in China. Xuzhou Henkel Detergents and Cleaning Products Co. Ltd. in the central eastern part of China closes the regional gap between the other joint ventures which are already in existence.

With our detergents businesses in China, we have now achieved a market share of almost 10 percent, putting us in second place.

With our two joint ventures in St. Petersburg and Engels, we also count among the leading suppliers to the Russian detergents market. Aside from the already well established brands Era and Losk, we have also now launched our international Dixan brand onto the market.

1996 saw us come even closer to our objective of establishing ourselves on the detergents and household cleansers markets of the Near East.

In Israel, we joined forces with Shemen Industries to establish the Henkel-Soad Ltd. joint venture. This enterprise is destined to become market leader in the Israeli detergents and household cleansers market following integration of local brands with previously imported international Henkel brand-name products.

In Lebanon, a local company was established in the form of Henkel-Lebanon S.A.L. in which Henkel has a 50 percent participating interest.

In Egypt, Port Said Detergents & Chemicals Industries has moved up to second position on the detergents and household cleansers market. The company is market leader in liquid products.

Outlook

We intend to continue to serve the market with consumer-oriented, innovative products and sales and distribution concepts. Our established national and international brands, particularly Persil and Dixan, are to be further strengthened and the growth potential in specific segments of our established markets will be thoroughly utilized. In the new growth markets, we intend to put all our efforts into expanding our current positions. Overall, we see good opportunities for a continuation of the gratifying rates of growth in both sales and earnings in the foreseeable future.

Industrial and Institutional Hygiene

(Sales up 15 percent, Sales performance by region, Financial Performance, Segment reporting, Cosmetics/Toiletries, International brand-name products markets, Sales and distribution structures strengthened, Outlook, (24) Sales, Management Board of Henkel KGaA, January 1997, Nice)

High-performance disinfectants help prevent infection, e.g. in hospitals. Permanently, effectively and without side effects. For the Industrial and Institutional Hygiene business sector of Henkel, our researchers are constantly looking for new active ingredients which are also ecologically benign. With Glucoprotamin, they have found the perfect answer - a new - ,generation antimicrobial substance. Henkel-Ecolab markets hygiene products with this active ingredient throughout Europe.

Product groups:

Products, appliances, equipment, systems and services for cleaning, washing, maintenance, sanitizing and disinfecting applications at major institutional and industrial customers, in the food and beverage industry and in the agricultural sector.

This business is operated in Europe as a joint venture, Henkel-Ecolab, in collaboration with our American partner Ecolab Inc., St. Paul, Minnesota/USA. The business is complemented by several smaller operations run in conjunction with local partners overseas. In world terms, Ecolab and Henkel-Ecolab are market leaders in the I&I sector.

Sales and distribution structures strengthened

The boundary conditions governing the market for [industrial and institutional hygiene](#) in Europe underwent considerable change in the year under review. As a result of two significant competitors merging, the battle for market leadership has entered a new dimension.

We responded to these changes by introducing cost-cutting programs and organizational restructuring measures. In spite of declining market volumes, we were able to increase sales and strengthen our market positions.

The main growth regions for Henkel-Ecolab were the countries of northern Europe plus Great Britain, and also the new markets in eastern Europe and the tourist centers of the Mediterranean.

At our [Institutional Hygiene](#) unit, we integrated the previously separate field service organizations of Henkel and Ecolab into a single, joint entity. This substantially strengthens our structures for serving international key accounts. System offerings such as Ecoplus 2000, which are marketed throughout Europe, have now become successfully established.

There was considerable competition from manufacturers of brand-name products who are becoming increasingly active in our traditional business sectors.

The Floordress and Hospital [Hygiene](#) business units were merged into a new entity under the name Professional [Hygiene](#). In addition, our national organizations in France, Benelux and Great Britain were streamlined. We also expanded our national and international customer group management activities, taking on further personnel for this purpose. In Switzerland, we sold our Koppigen plant (cleaning machines) and moved our Floordress business to Muttenz.

On the textile [hygiene](#) sector, we succeeded in winning new customers throughout Europe with innovative products and systems such as Triplex, Noxa liquid and the paste detergent Pur-Compactat. We were thus able to strengthen and expand our leading market position in a shrinking market characterized by aggressive price-cutting competition.

Our P3 Food [Hygiene](#) unit made considerable progress in implementing pan-European concepts geared toward expanding its European customer group management activities.

Our German business has been restructured in order better to meet specific customer requirements.

Outlook

We shall continue to work on improving our efficiency in all areas. We intend to collaborate with Ecolab Inc. through international working groups in order to optimize our procedures and processes.

By significantly expanding our field sales and service organizations, with even greater emphasis on performance-related remuneration, we hope to create favorable conditions for broad-based growth in Europe.

In the [Institutional Hygiene](#) unit, we intend to boost business in 1997 by introducing new product concepts onto the market via the trade route. Our field sales and service training operations are to be centralized in order to ensure a higher level of advisory and service competence throughout Europe.

The newly formed business unit Professional [Hygiene](#) will be concentrating on the building cleaning market, the industrial cleaning sector, hospitals and the residential homes segment.

We shall be adding impetus to our performance on the textile [hygiene](#) market through the introduction of new products and systems from our range of detergent pastes, and will be offering our customers greater process cost

transparency with our Total Process Management System.

Growing **hygiene** requirements in the sector served by P3 Food **Hygiene** will be met on the basis of an improved training program and a comprehensive **hygiene** service concept. The milk industry will also be receiving more focus in the form of cost-saving problem solutions.

We expect our I&I business to perform well in 1997. We have responded quickly in adapting our organization to the tougher competitive environment which has developed, and have appropriately aligned our marketing, sales and distribution structures to a more offensive approach. Based on our new mission statement "Henkel-Ecolab - The Service Company", we intend to align our activities consistently to the requirements of our customers.

Major Participations

Europe

	Share of capital	Sales	Earnings before tax	Employees
	%	DM m	DM m	Dec. 31
Henkel-Ecolab Joint Venture Companies	50 % + 1 share	1,384	108	3,965
Hans Schwarzkopf GmbH, Hamburg/Germany	100	614	72	1,255
Grünau Illertissen GmbH, Illertissen/Germany	100	273	9	620
Henkel Adhesives Group, Düsseldorf/Germany	100	938	61	2,067
Henkel Benelux Group, Brussels/Belgium and Nieuwegein/Netherlands	100	668	18	994
Henkel France Group, Boulogne-Billancourt/France	100	1,146	39	1,637
Sidobre-Sinnova S.A., Boussens-Saint Martory/France	100	272	- 1	383
Henkel Ltd., London/Great Britain	100	269	5	565
Henkel S. p. A., Ferentino/Italy	100	998	4	1,557
Henkel Austria Group, Vienna/Austria	100	866	2	2,738
Henkel Nordic Group, Stockholm/Sweden	100	175	- 9	309
Henkel & Cie. AG, Pratteln, including Laesser Klebstoffe AG/Switzerland	100	160	5	186
Henkel Ibérica Group, Barcelona/Spain	80	967	43	1,886
Henkel Turyag A.S., Izmir/Turkey	100	178	- 7	443
Türk Henkel A.S., Istanbul/Turkey	100	206	24	508

Overseas

	Share of capital	Sales	Earnings before tax	Employees
	%	DM m	DM m	Dec. 31
Henkel S.A. Indústrias Químicas, São Paulo/Brazil	100	245	10	931
Henkel Mexicana S. A. de C. V., Ecátepec de Morelos, and Mexico D.F./Mexico	100	88	0	494
Henkel South Africa (Pty) Ltd., Alrode/South Africa	50	96	6	650
Henkel of America Inc., Gulph Mills/Pennsylvania/USA	100	1,909	171	3,543
Henkel Asia-Pacific Group/Hong Kong	100	1,019	28	5,974

Table of Monetary Units

Europe

Average exchange rates Jan.1 - Dec. 31,1996		Exchange rates Dec. 31, 1996	
100 BEF	= 4.86 DM	100 BEF	= 4.8540 DM
1 GBP	= 2.36 DM	1 GBP	= 2.6267 DM
100 FRF	= 29.42 DM	100 FRF	= 29.6380 DM
100 NLG	= 89.23 DM	100 NLG	= 89.0860 DM
1000 ITL	= 0.97 DM	1000 ITL	= 1.0174 DM
100 ATS	= 14.21 DM	100 ATS	= 14.2110 DM
100 CHF	= 121.82 DM	100 CHF	= 116.0000 DM
100 ESP	= 1.19 DM	100 ESP	= 1.1866 DM
10000 TRL	= 0.19 DM	10000 TRL	= 0.1440 DM

Overseas

1 BRL	= 1.49 DM	1 BRL	= 1.4970 DM
1 JPY	= 1.38 DM	1 JPY	= 1.3408 DM
100 MXN	= 19.70 DM	100 MXN	= 19.8000 DM
1 USD	= 1.50 DM	1 USD	= 1.5548 DM

Europe:

BEF = Belgian franc, **GBP** = British pound, **FRF** = French franc, **NLG** = Dutch guilder, **ITL** = Italian lira, **ATS** = Austrian schilling, **CHF** = Swiss franc, **ESP** = Spanish peseta, **TRL** = Turkish lira.

Overseas:

BRL = Brazilian real, **JPY** = Japanese yen, **MXN** = Mexican peso, **USD** = US dollar

Major Participations in Associated Companies

Degussa AG via GFC Gesellschaft für Chemiewerte mbH, Düsseldorf, Germany

Henkel KGaA has a participating interest of 45.8 percent in GFC Gesellschaft für Chemiewerte mbH, Düsseldorf, which in turn owns 39.1 percent of the capital stock of Degussa AG, Frankfurt. Degussa is predominantly active in the fields of precious metals, chemicals and pharmaceutical products. A close customer/supplier relationship has long existed between Henkel and Degussa in the field of detergent raw materials.

The first quarter of fiscal 1995/96 was characterized by a decline in sales, while the subsequent quarters saw a period of continuous recovery. At DM 13.8 billion, sales for the year as a whole were only just below the figure for last year. Net earnings rose by 1 percent to DM 302 million. The [Chemical Products](#), and also Health and Food businesses of the company performed considerably better than in the previous financial year. Its earnings situation in the precious metals and bank segments remains unsatisfactory. Corresponding restructuring measures have been instigated.

The official price quoted for Degussa shares rose in 1996 by 44 percent. This meant that the market value of our attributable share of capital as of Dec. 31, 1996 is DM 1,061 million.

The Clorox Company, Oakland/California, USA

Product groups: Bleaching agents, household products, processed foods

Henkel owns 15.4 million shares in the Clorox Company, corresponding to a participating interest of 27.8 percent. Henkel and Clorox also have a technology transfer agreement. Our collaboration with Clorox extends to the exchange of formulations, marketing concepts and test methods. As Henkel is not present on the American detergents and household cleansers markets, this cooperation is of major importance. Moreover, within certain European countries we also cooperate on the production and marketing of household bleaching agents.

Fiscal 1995/96 was particularly successful for Clorox. Its sales rose by 12 percent to US\$ 2,218 million. This growth in revenue was assisted by significant acquisitions in Latin America. The international business activities of Clorox have thus been considerably expanded and now account for 14 percent of sales. The net earnings figure rose by 11 percent to US\$ 222 million.

The share price of Clorox rose in 1996 by 41 percent. The market value of our participating interest as of Dec. 31, 1996 thus amounted to US\$ 1,560 million.

Ecolab Inc., St. Paul/Minnesota, USA

Product groups: [Chemical products](#), appliances and equipment for cleaning, washing, maintenance, sanitizing and disinfecting applications at major institutional and industrial customers, and for water treatment and pest control

Henkel owns 15.5 million shares in Ecolab Inc., corresponding to a participating interest of 21.9 percent. The European joint venture Henkel-Ecolab and Ecolab Inc. with its activities in the USA and other regions outside Europe, together represent a business of global importance enjoying a leading market position.

Fiscal 1996 was again successful for the businesses of Ecolab Inc. Sales rose by 11 percent to US\$ 1,490 million. All business sectors contributed to this sales growth. Strategic acquisitions strengthened major areas of Ecolab's sphere of activity. Net earnings rose by 14 percent to US\$ 113 million. The share price of Ecolab increased in 1996 by approx. 26 percent. The market value of our participating interest as of Dec. 31, 1996 was US\$ 584 million.

Annual Financial Statements

([Major acquisitions and joint ventures](#), [General](#), [Preparation](#), [valuation and audit of financial statements included in the consolidation](#), [\(13\) Currency translation difference](#), [Auditors' Report](#), [Report of the Supervisory Board](#))

Henkel Group Consolidated Balance Sheet

	December 31, 1996		December 31, 1995		
	Notes	DM mill.	%	DM mill.	%
Assets					
Intangible assets	(1)	1,667	12.4	595	5.1
Tangible assets	(2)	3,980	29.6	3,592	30.9
Financial assets	(3)	1,862	13.9	2,367	20.4
Fixed assets		7,509	55.9	6,554	56.4
Inventories	(4)	2,113	15.7	1,951	16.8
Receivables and other assets	(5)	3,244	24.0	2,732	23.5
Marketable securities	(6)	76	0.6	48	0.4

Liquid funds	(7)	451	3.4	292	2.5
Current assets		5,884	43.7	5,023	43.2
Deferred charges	(8)	51	0.4	43	0.4
Total assets		13,444	100.0	11,620	100.0

December 31, 1996 December 31, 1995

	Notes	DM mill.	%	DM mill.	%
Shareholders' Equity and Liabilities					
Subscribed capital	(9)	730	5.4	730	6.3
Capital reserve	(10)	1,276	9.5	1,276	11.0
Revenue reserves	(11)	2,262	16.8	2,011	17.3
Unappropriated profit		181	1.3	160	1.4
Minority interests	(12)	510	3.8	434	3.7
Currency translation difference	(13)	- 343	- 2.5	- 538	- 4.7
Shareholders' equity		4,616	34.3	4,073	35.0
Participating certificates	(14)	70	0.5	100	0.9
Participating loans	(15)	130	1.0	130	1.1
Special items		200	1.5	230	2.0
Provisions for pensions and similar obligations	(17)	2,485	18.5	2,196	18.9
Other provisions	(18)	1,505	11.2	1,329	11.5
Provisions		3,990	29.7	3,525	30.4
Liabilities with a residual term of					
more than 5 years		55	0.4	55	0.5
between 1 and 5 years		404	3.0	146	1.2
up to 1 year		4,172	31.1	3,575	30.8
Liabilities	(19)	4,631	34.5	3,776	32.5
Deferred income	(20)	7	-	16	0.1
Total equity and liabilities		13,444	100.0	11,620	100.0

Henkel Group Consolidated Statement of Income

		1996		1995	
	Notes	DM mill.	%	DM mill.	%
Sales	(24)	16,301	100.0	14,198	100.0
Cost of sales	(25)	9,438	57.9	8,368*	58.9
Gross profit		6,863	42.1	5,830	41.1
Selling and distribution costs	(26)	4,518	27.7	3,822	26.9
Research and development costs	(27)	401	2.5	369	2.6
Administrative expenses	(28)	988	6.0	862	6.1
Amortization of goodwill	(29)	99	0.6	17*	0.2
Restructuring costs	(30)	130	0.8	80	0.6
Other operating income	(31)	117	0.7	176	1.3
Other operating charges	(32)	100	0.6	131	0.9
Operating profit		744	4.6	725	5.1
Financial items	(33)	31	0.2	35	0.2
Result from ordinary activities		775	4.8	760	5.3
Earnings before tax		775	4.8	760	5.3

Taxes on income	(35)	- 260	- 1.6	- 272	- 1.9
Net earnings		515	3.2	488	3.4
Allocation to revenue reserves		- 264	- 1.6	- 273	- 1.9
Minority interests in profits		- 82	- 0.5	- 63	- 0.4
Minority interests in losses		12	-	8	-
Unappropriated profit		181	1.1	160	1.1

* reclassified for comparative purposes

Key ratios:

Return on shareholders' equity % (net earnings ÷ average equity capital over the year)			11.9		12.3
Total return on investment % (earnings before taxation and interest expense ÷ average total equity and liabilities over the year)			8.3		8.9
Equity shareholders' equity % (shareholders' equity and special items ÷ total assets)			35.8		37.0

Henkel KGaA Balance Sheet

		December 31, 1996		December 31, 1995	
	Notes	DM mill.	%	DM mill.	%
Assets					
Intangible assets	(1)	126	1.5	92	1.1
Tangible assets	(2)	789	9.1	819	10.3
Financial assets	(3)	4,802	55.2	4,680	58.3
Fixed assets		5,717	65.8	5,591	69.7
Inventories	(4)	485	5.6	561	7.0
Receivables and other assets	(5)	2,428	28.0	1,832	22.8
Marketable securities	(6)	1	-	-	-
Liquid funds	(7)	54	0.6	28	0.4
Current assets		2,968	34.2	2,421	30.2
Deferred charges	(8)	5	-	10	0.1
Total assets		8,690	100.0	8,022	100.0
				December 31, 1996	
				December 31, 1995	
	Notes	DM mill.	%	DM mill.	%

Shareholders' Equity and Liabilities

Subscribed capital	(9)	730	8.4	730	9.1
Capital reserve	(10)	1,276	14.7	1,276	15.9
Revenue reserves	(11)	1,187	13.7	1,114	13.9
Unappropriated profit		181	2.1	160	2.0
Shareholders' equity		3,374	38.9	3,280	40.9
Participating certificates	(14)	70	0.8	69	0.9
Participating loans	(15)	130	1.5	130	1.6
Special accounts with reserve element	(16)	199	2.3	202	2.5
Special items		399	4.6	401	5.0
Provisions for pensions and similar obligations	(17)	1,735	20.0	1,637	20.5

Other provisions	(18)	396	4.5	477	5.9
Provisions		2,131	24.5	2,114	26.4
Liabilities with a residual term of					
more than 5 years		29	0.3	29	0.3
between 1 and 5 years		248	2.9	-	-
up to 1 year		2,507	28.8	2,195	27.4
Liabilities	(19)	2,784	32.0	2,224	27.7
Deferred income	(20)	2	-	3	-
Total equity and liabilities		8,690	100.0	8,022	100.0

Henkel KGaA Consolidated Statement of Income

		1996		1995	
	Notes	DM mill.	%	DM mill.	%
Sales	(24)	5,175	100.0	5,640	100.0
Cost of sales	(25)	3,293	63.6	3,519	62.4
Gross profit		1,882	36.4	2,121	37.6
Selling and distribution costs	(26)	1,182	22.9	1,351	24.0
Research and development costs	(27)	249	4.8	268	4.8
Administrative expenses	(28)	327	6.3	358	6.3
Restructuring costs	(30)	89	1.7	50	0.9
Other operating income	(31)	53	1.0	69	1.2
Other operating charges	(32)	20	0.4	31	0.5
Operating profit		68	1.3	132	2.3
Financial items	(33)	220	4.3	115	2.1
Result from ordinary activities		288	5.6	247	4.4
Changes in special accounts with reserve element	(34)	12	0.2	19	0.3
Earnings before tax		300	5.8	266	4.7
Taxes on income	(35)	- 46	- 0.9	- 106	- 1.9
Net earnings		254	4.9	160	2.8
Allocation to revenue reserves		- 73	- 1.4	-	-
Unappropriated profit		181	3.5	160	2.8

Key ratios:

Return on shareholders' equity % (net earnings ÷ average equity capital over the year)		7.6	4.9
Total return on investment % (earnings before taxation and interest expense ÷ average total equity and liabilities over the year)		5.2	4.9
Equity ratio % (shareholders' equity and special items less 50 % of special accounts with reserve element ÷ total assets)		42.3	44.6

Changes in Fixed Assets

((3) [Financial assets](#))

(figures in DM millions)

Henkel Group

	At Cost						Accumulated depreciation		Net book values		Depreciation charge 1996	
	Jan. 1, 1996	Changes in the Group	Additions	Disposals	Reclassifications	Translation differences	Dec. 31, 1996	Dec. 31, 1996	thereof changes in the Group	Dec. 31, 1996		Dec. 31, 1995
Patents, licenses and similar rights	556	83	109	30	3	14	735	408	41	327	276	106
Goodwill	344	707	407	-	-	13	1,471	131	-	1,340	319	99
Intangible assets	900	790	516	30	3	27	2,206	539	41	1,667	595	205
Land, land rights and buildings, incl. buildings on leasehold land	2,469	192	122	37	41	97	2,884	1,311	93	1,573	1,365	112
Plant and machinery	5,255	154	276	193	76	187	5,755	4,068	116	1,687	1,662	469
Other factory and office equipment	1,269	98	204	166	47	30	1,482	1,090	72	392	331	184
Payments on account and assets in course of construction	236	10	253	12	- 167	11	331	3	-	328	234	2
Tangible assets	9,229	454	855	408	- 3	325	10,452	6,472	281	3,980	3,592	767
Shares in affiliated companies	827	- 752	238	-	-	4	317	11	2	306	818	-
Participations in associated companies	1,416	-	89	1	-	-	1,504	-	-	1,504	1,416	-
Other participations	135	-	9	80	-	-	64	12	-	52	133	10
Financial assets	2,378	- 752	336	81	-	4	1,885	23	2	1,862	2,367	10
Fixed assets	12,507	492	1,707	519	-	356	14,543	7,034	324	7,509	6,554	982

Henkel KGaA

	At Cost					Accumulated depreciation		Net book values		Depreciation charge 1996
	Jan. 1, 1996	Additions	Disposals	Reclassifications		Dec. 31, 1996	Dec. 31, 1996	Dec. 31, 1996	Dec. 31, 1995	
Patents, licenses and similar rights	229	82	16	-		295	169	126	92	48
Goodwill	-	-	-	-		-	-	-	-	-
Intangible assets	229	82	16	-		295	169	126	92	48
Land, land rights and buildings, incl. buildings on leasehold land	902	30	9	9		932	568	364	354	28
Plant and machinery	2,044	88	92	- 15		2,025	1,704	321	353	133

Other factory and office equipment	495	62	66	36	527	444	83	76	60
Payments on accounts and assets in course of construction	36	15	-	- 30	21	-	21	36	-
Tangible assets	3,477	195	167	-	3,505	2,716	789	819	221
Shares in affiliated companies	4,720	207	1	-	4,926	435	4,491	4,286	-
Participations in other companies	396	8	81	-	323	12	311	394	10
Financial assets	5,116	215	82	-	5,249	447	4,802	4,680	10
Fixed assets	8,822	492	265	-	9,049	3,332	5,717	5,591	279

Notes on Henkel Group and Henkel KGaA

Consolidation and Accounting Policies

General

Unless otherwise indicated, these Notes refer both to the consolidated financial statements and to the [annual financial statements](#) of Henkel KGaA.

In order to improve the clarity and informative value of the financial statements, certain items have been combined in the balance sheet and statement of income and shown separately in the Notes. The cost of sales method is used for presentation of the statement of income. Research and development costs, amortization of goodwill and restructuring costs are shown separately because they are so important.

Changes in special accounts with reserve element are shown below the result from ordinary activities in the statement of income of Henkel KGaA because they are relevant only for tax purposes. In the consolidated financial statements, in order to improve their informative value for comparative purposes in an international context, the appropriate proportions of special accounts with reserve element in the balance sheets of individual companies have been transferred to revenue reserves and provisions for deferred taxation.

Companies included in the consolidation

([Consolidation principles](#), [Preparation, valuation and audit of financial statements included in the consolidation](#), (12) [Minority interests](#))

Apart from Henkel KGaA and its only branch operation in Genthin, the consolidated financial statements include 42 domestic and 202 foreign companies in which Henkel KGaA holds, directly or indirectly, a majority of the voting rights or which are under the unified management control of Henkel KGaA.

Hans Schwarzkopf GmbH, Hamburg, and its subsidiaries have been consolidated in the Henkel Group for the first time as from January 1, 1996. The business activities and companies of the Novamax Technologies Corporation acquired from the Molson Group of Toronto, Canada, on October 8, 1996, will be consolidated in the Henkel Group as from January 1, 1997.

90 [subsidiary companies](#) have not been included in the consolidation because they are not material for a true and fair view of the net worth, financial position and results of the Group. Apart from two housing companies, the companies in question are mainly either companies which are not actively trading or companies which trade in the

name and for the account of Group companies which have been included.

One domestic and 28 foreign companies have been included in the consolidation for the first time. The total effect of these changes, after allowing for the financing costs of the Schwarzkopf acquisition, has been to increase sales by DM 1,210 million and net earnings by DM 23 million.

The option of including in the consolidation a proportionate part of companies in which Henkel KGaA has an equal shareholding with others outside the Group has not been exercised.

Consolidation principles

Investments in subsidiaries are consolidated by setting off the book values of the investments in Group companies against the corresponding proportionate part of the net assets shown in their balance sheets at the date of acquisition (the "book value" method). Any differences are allocated to the relevant assets and liabilities to the extent that the values attributable to them are significantly higher or lower than the valuations taken over. Any remaining differences on the assets side of the balance sheet are capitalized as goodwill under intangible [fixed assets](#) and amortized against earnings. The same procedure is adopted for participations in associated companies valued by the equity method, [goodwill](#) being included in the equity valuations of the companies concerned. The appropriate proportion of these companies' earnings, including the amount written off goodwill, is included under financial items in the statement of income.

Differences arising on consolidation of intercompany balances as a result of write-downs made on intercompany receivables and of exchange rate differences are included in sundry provisions in the consolidated balance sheet.

Any profits or losses made on trading or financial transactions between [companies included in the consolidation](#) are eliminated. The same applies to write-downs or write-ups on the book values of shares in Group [companies included in the consolidation](#). Inventories originating from goods supplied between Group companies have been valued at their cost to the Group as a whole.

Deferred taxation, calculated at the average rate of tax chargeable on profits of the Group, is accrued on consolidation procedures affecting net earnings when the difference in the tax charge as a result of such procedures can be expected to be reversed in subsequent accounting periods.

Currency translation

[\(Total assets boosted by acquisitions, Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities, \(13\) Currency translation difference\)](#)

Accounts receivable and payable in foreign currency are translated in the financial statements of individual companies at the rates of exchange in force when they originated. If, however, translation of foreign currency items at the rate in force on the balance sheet date produces a lower amount for receivables or a higher amount for liabilities, then foreign currency items are translated at the rates in force on the balance sheet date, unless amounts receivable and payable in a particular currency balance each other out or the amounts involved are covered by forward exchange transactions.

In order to eliminate inflation more effectively the financial statements of our Turkish and Russian subsidiaries are drawn up in DM and those of our Argentinian, Brazilian and Mexican companies in US dollars.

For consolidation purposes the balance sheets of foreign companies are translated at the rates of exchange ruling at the balance sheet date and their income statements at average rates for the year. The differences arising from translating earnings at average rates and equity capital figures at year-end rates are shown - in the same way as exchange rate differences compared with the beginning of the year - under a separate heading as part of the shareholders' equity at the cumulative amounts up to the balance sheet date.

Preparation, valuation and audit of financial statements included in the consolidation

With the exception of the companies in the Henkel-Ecolab joint venture (whose fiscal year ends on November 30) the [annual financial statements](#) of domestic and foreign companies included in the consolidated financial statements are drawn up at the same accounting date as the financial statements of Henkel KGaA. Accounting and valuation policies are laid down in a Group Accounting Manual which complies with the regulations contained in the German Commercial Code. Where the accounting treatment or valuation policies adopted by foreign companies to comply with local regulations are different, appropriate adjustments are made for purposes of the consolidated financial statements.

Assets and liabilities are valued in conformity with the prudence concept; in the case of domestic companies, when calculating purchase or manufactured cost or when exercising valuation options allowed under company law, the minimum values which have to be used to comply with the regulations governing the calculation of taxes on income are not exceeded. As allowed by company law regulations, no assets have been written up to their original values except to bring valuations in the commercial balance sheet into line with the findings of external tax audits. No advantage has been taken of the option to accrue claims for deferred tax. The accounting and valuation policies have been applied on a basis consistent with the previous year and take all identifiable contingencies into account; they are explained in detail in the notes on individual balance sheet headings.

The [annual financial statements](#) of [companies included in the consolidation](#) have been audited almost without exception by the Group auditors or by member firms of the KPMG organization. They have all been given an unqualified opinion for inclusion in the consolidated financial statements.

Notes on Balance Sheet

(figures in DM millions, unless stated otherwise)

Fixed assets

([Cash flow statement](#), [Total assets boosted by acquisitions](#), [Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Assets](#), [Changes in Fixed Assets - Henkel Group](#), [Changes in Fixed Assets - Henkel KGaA](#), [Consolidation principles](#), (2) [Tangible assets](#), (3) [Financial assets](#), (16) [Special accounts with reserve element](#), (22) [Other financial commitments](#), (31) [Other operating income](#), (34) [Changes in special accounts with reserve element](#), (36) [Depreciation](#), [Ten-Year Summary - Henkel Group](#))

(1) Intangible assets

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Assets](#))

Software purchased is written off over 3 - 5 years, patents, licenses and other property rights (including know-how) over 5 - 10 years or in accordance with the terms of the contractual agreements.

Purchased goodwill and goodwill arising from the first-time consolidation of subsidiaries is amortized on a scheduled basis over a maximum of 15 years. The additions in the consolidated balance sheet relate to purchased goodwill and goodwill from the first-time consolidation of subsidiaries, the latter mainly in connection with the acquisition of Schwarzkopf.

(2) Tangible assets

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Assets](#))

Tangible [fixed assets](#) are valued at cost less scheduled depreciation. Manufacturing cost includes, in addition to direct costs, appropriate proportions of factory overheads; interest charges on borrowings are not included.

Office buildings are depreciated over a maximum of 40 years, factory buildings over 25 years. Depreciation is calculated on a declining balance basis where allowed for tax purposes.

Movable tangible [fixed assets](#) are generally depreciated first on a declining balance basis and then on a straight-line basis. The service lives of plant and machinery are 10 - 20 years, those of other factory and office equipment 5 - 20 years. Assets of low value are written off in full in the year when they are acquired. Exceptional depreciation is charged where a diminution in value is expected to be permanent.

Taxable investment grants received and special tax-allowable depreciation charged are transferred to special accounts with reserve element and written back over the useful lives of the assets concerned; tax-free investment allowances are taken to income as revenue.

(3) Financial assets

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Assets](#))

Shares in [affiliated companies](#) and other participations are shown at cost or at such lower value as is attributable to them. Participations in companies where a significant influence is exercised over their business affairs ("associated" companies) are valued in the consolidated financial statements at 'equity' under the book value method, unless they are not material in the context of the Group as a whole. In the case of participations in foreign companies carried at equity, the valuation methods applied by those companies in their own financial statements have not been adjusted to bring them into line with the valuation methods used for the consolidated financial statements. Intercompany profits on goods supplied by such companies to companies in the Group are not material and so have not been eliminated. In the case of participations in foreign associated companies carried at equity whose business strategy is directly influenced by Henkel KGaA, the valuation of the participations is not adjusted to reflect the effects of fluctuating exchange rates.

Shares in [affiliated companies](#) shown as such in the consolidated balance sheet relate to the companies of the Novamax Technologies Corporation, Atlanta, USA, and to unconsolidated majority shareholdings which are not material. Participations in associated companies relate particularly to GFC Gesellschaft für Chemiewerte mbH, Loctite Corporation, The Clorox Company, and Ecolab Inc.

The main additions to shares in [affiliated companies](#) and other participations in the balance sheet of Henkel KGaA relate to the incorporation of new companies and the acquisition of shares in companies in Germany, Bahrain, Chile, China, Hong Kong, Israel, Japan, Canada, the Lebanon, Peru, South Korea and Tunisia. Extra capital was injected into some Group companies - especially in Hong Kong, Malaysia, Morocco, Mexico and Turkey - in order to improve their financial structure and help finance the growing volume of business. Write-downs of DM 10 million have been made on the valuation of a foreign participation which continues to be unprofitable.

The list of shareholdings owned by Henkel KGaA and by the Henkel Group is filed with the Commercial Register at the Düsseldorf Municipal Court.

A table showing a breakdown of [fixed assets](#) and their movements during the year is reproduced in the [Changes in Fixed Assets](#) section.

Current assets

([Cash flow statement](#), [Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Assets](#), [Ten-Year Summary - Henkel Group](#))

(4) Inventories

(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets, Annual Financial Statements - Henkel KGaA Balance Sheet - Assets)

Inventories are valued at cost using the average method or simplified methods of valuation permitted (the LIFO method).

The cost of manufacture includes, in addition to costs which are directly attributable, any necessary materials and production overheads plus depreciation. In the case of German companies, the cost of manufacture does not exceed those elements of cost which have to be included for income tax purposes. Inventories in the consolidated balance sheet originating from goods supplied between Group companies are valued at their cost to the Group as a whole.

Where necessary, inventories are valued at their lower market value. Appropriate markdowns have been made on the valuation of inventories which will not realize their full value or which have been on hand for a long time.

	Henkel Group		Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
Raw materials and supplies	716	674	180	216
Work in process	236	236	117	139
Finished products and merchandise	1,153	1,033	188	206
Payments on account of inventories	8	8	-	-
	2,113	1,951	485	561

(5) Receivables and other assets

(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets, Annual Financial Statements - Henkel KGaA Balance Sheet - Assets)

Credit risks associated with accounts receivable and other assets have been covered by specific and general provisions.

	Henkel Group		Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
Trade accounts receivable	2,647	2,263	374	411
Accounts receivable from affiliated companies	69	24	1,809	1,260
(including those with a residual term of more than 1 year)	(-)	(-)	(15)	(5)
Accounts receivable from other companies in which participations are held	31	22	10	12
(including those with a residual term of more than 1 year)	(11)	(-)	(9)	(-)
Other assets	497	423	235	149
(including those with a residual term of more than 1 year)	(174)	(136)	(91)	(73)
	3,244	2,732	2,428	1,832

(6) Marketable securities

(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets, Annual Financial Statements -

Henkel KGaA Balance Sheet - Assets)

Marketable securities are valued at the lower of cost or quoted market value. Any reduction in valuation is retained for tax reasons.

(7) Liquid funds

(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets, Annual Financial Statements - Henkel KGaA Balance Sheet - Assets)

The liquid funds comprise mainly balances at banks.

(8) Deferred charges

(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Assets, Annual Financial Statements - Henkel KGaA Balance Sheet - Assets)

	Henkel Group		Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
Debt discount	2	2	1	1
Other deferred charges	49	41	4	9
	51	43	5	10

Shareholders' equity

(9) Subscribed capital

(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities, Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities)

	Henkel Group/Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995
Ordinary bearer stock	433	400
Non-voting preferred bearer stock	297	330
Capital stock	730	730

Divided into:

86,598,625 ordinary shares of DM 5 each
59,387,625 preferred shares of DM 5 each

The subscribed capital totals DM 729.9 million.

At the Annual General Meeting held on June 3, 1996, a resolution was passed to replace the existing different denominations of capital by shares with a uniform par value of DM 5. Furthermore it was resolved that 6,598,625 non-voting preferred bearer shares be converted into 6,598,625 ordinary voting bearer shares. This means that, in the ratio of 10 for 1, each non-voting preferred share of DM 50 was converted into nine non-voting preferred shares with a par value of DM 5 each and one ordinary share with a par value of DM 5.

At the Annual General Meeting held on June 3, 1996, the personally liable Associates were authorized - subject to the approval of the Supervisory Board and of the [Shareholders' Committee](#) - to increase the capital of the Company once only or in several instalments at any time up to June 3, 2001, by up to a total of DM 50 million by issuing new non-voting preferred shares for cash.

In December 1996 Thompson-Siegel GmbH, Düsseldorf, a subsidiary of Henkel KGaA, acquired 3,360,848 shares in Henkel KGaA with a par value of DM 5 each (= 2.3 percent of the capital of Henkel KGaA) at a price of DM 75.26 per share. This purchase was made in order to indemnify the minority shareholders in Hans Schwarzkopf GmbH, Hamburg, because of the controlling agreement between Thompson-Siegel GmbH and Hans Schwarzkopf GmbH (§ 71(1) no. 3 AktG). As consideration for the shares sold in Henkel KGaA Thompson-Siegel GmbH has received shares in Hans Schwarzkopf GmbH with a total par value of DM 9.2 million.

(10) Capital reserve

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#))

The capital reserve comprises amounts received in previous years in excess of the nominal value of preferred shares and convertible warrant bonds issued.

(11) Revenue reserves

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#))

"Other" [revenue reserves](#) include DM 1,114 million in the financial statements of Henkel KGaA allocated in previous years. DM 73 million has been allocated out of the net earnings of Henkel KGaA in 1996 and a further DM 191 million out of consolidated net earnings of the Group. In the consolidated financial statements this heading also includes the results of consolidated companies less the interests of minority shareholders therein. Also included are the changes in consolidation items which affect earnings and the effects of companies being included or excluded in the consolidation for the first time.

(12) Minority interests

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#))

Minority interests in the consolidated balance sheet include Ecolab Inc.'s share in the Henkel-Ecolab joint venture companies and partners' shares in a number of mainly foreign [companies included in the consolidation](#).

(13) Currency translation difference

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#))

The differences on [currency translation](#) of the [annual financial statements](#) of foreign companies are shown under a separate heading as part of the shareholders' equity. The negative difference has decreased by DM 195 million as a result of exchange rate gains on some foreign currencies.

Special items

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel Group Consolidated Statement of Income](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel KGaA Consolidated Statement of Income](#), (18) Other provisions)

(14) Participating certificates

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#),

	Henkel Group		Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
Participating certificates of Henkel KGaA issued to employees	70	69	70	69
Redeemable preferred shares issued by Henkel Corporation	-	31	-	-
	70	100	70	69

Resolutions passed by shareholders at General Meetings held on June 29, 1987, and June 15, 1992, created conditionally authorized participating certificates for a total nominal value of DM 60 million and DM 70 million respectively for issuing - to employees of the Company and of [affiliated companies](#) - rights to participate in profits with a distribution linked to the rate of dividend. Each issue of participating rights is divided into individual participating rights ranking equally with each other, documented in the form of participating certificates with a nominal value of DM 52 each. Authorization for the first issue expired on June 28, 1992; for the second issue it remains in force until June 14, 1997. At December 31, 1996, 1,337,231 certificates (DM 70 million) had been allotted, including 183,552 (DM 10 million) in 1996. The maximum period for which the participating certificates are valid is until December 31, 2003. No more certificates are to be issued.

In 1984 Henkel Corporation issued 220 redeemable preferred shares with a total value of US\$ 22 million which were taken up by American financial institutions. These preferred shares, which carried a variable rate of interest, have been repurchased by Henkel Corporation in 1996.

(15) Participating loans

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#))

This heading replaces the "Capital funds of dormant partners" shown here for the same amount in the previous year.

The existing agreements governing the capital funds of dormant partners have been updated in line with current legal conditions and converted into agreements for participating loans on the same financial terms. The participation payments are linked as before to the dividends payable to preferred shareholders.

(16) Special accounts with reserve element

([Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#))

	Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995
Tax-allowable valuation adjustments to fixed assets	193	202
Other tax-allowable items	6	-
	199	202

In the financial statements of Henkel KGaA all differences between valuations calculated in accordance with company law principles and valuations made solely in accordance with tax regulations are shown as special accounts with reserve element and spread over the service lives of the assets concerned. The special accounts with reserve element include amounts set aside for reinvestment in [fixed assets](#) under § 6b of the Income Tax Law; for environmental protection under § 7d of the Income Tax Law; and for research and development under § 82d of the

Income Tax Regulation.

In the consolidated financial statements these special accounts are added to revenue reserves, after allowing for deferred taxation at the average rate chargeable on profits of the Group.

The overall reduction in special accounts with reserve element has increased the net earnings of Henkel KGaA for the year by DM 7 million; the tax charge on special accounts with reserve element which have been released back to income amounts to about 43 percent. There have been no cases where amounts have not been written back for tax reasons.

Provisions

(17) Provisions for pensions and similar obligations

[\(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities, Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities\)](#)

The pension provisions of German companies are calculated on actuarial principles at their "going concern" value recognized for tax purposes in accordance with the provisions of § 6a of the Income Tax Law, using an interest rate of 6 percent. Those of foreign companies are calculated in accordance with the relevant local regulations or, in the absence of such regulations, on actuarial principles.

In addition to the pension provisions accrued as liabilities in the balance sheets, policy reserves for employees of certain Group companies have been set up under the umbrella of pension and staff provident funds; in some cases, employees' pension rights have also been placed with insurance companies.

The pension provisions also include commitments under early retirement schemes, discounted at 6 percent.

Provisions have been set up for the statutory obligations which exist in certain countries to make severance payments to persons leaving a company's employment, calculated on the basis of the "going concern" concept in accordance with the treatment customary in the country concerned.

All direct and indirect pension obligations and commitments for severance payments are fully covered by provisions or fund assets. The same applies to the obligations of American companies to meet the health costs of employees who have retired.

(18) Other provisions

[\(Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities, Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities\)](#)

	Henkel Group		Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
Tax provisions	225	246	62	134
Deferred taxation	133	134	12	10
Sundry provisions	1,147	949	322	333
comprising:				
Sales	303	247	88	100
Personnel	367	333	132	138
Production and technology	184	117	28	23
Other	293	252	74	72
	1,505	1,329	396	477

The tax provisions comprise mainly amounts payable in 1997 and amounts which could be payable as a result of external tax audits and appeal proceedings. The decrease in tax provisions in the financial statements of Henkel KGaA is due to provisions being utilized for the back-payment of taxes following the conclusion of an external audit.

The provisions for deferred taxation reflect timing differences compared with the calculation of profit for tax purposes. The figure in the consolidated financial statements includes deferred tax liabilities of foreign companies, profits taxes for consolidation adjustments which will be subject to tax at a later date, and the tax portion of [special items](#) permitted under company law regulations and tax-allowable valuation adjustments. In the case of foreign companies, the provisions are calculated at the anticipated rate of tax chargeable on each individual company's profit, and in all other cases at the anticipated average rate of tax chargeable on profits of the Group.

Sundry provisions include amounts for sales rebates, end-of-year and long-service bonuses, vacation pay outstanding, restructuring programs, exchange rate and litigation risks, claims for damages, anticipated losses on contracts in course of completion, pollution control, etc. They are adequate to cover all identifiable contingencies. Appropriate provisions have been made for deferred maintenance carried out in the first three months of the following fiscal year.

Liabilities

(19) Liabilities

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#))

Liabilities are shown at the amounts due on repayment.

The bonds represent short-term unsecured commercial paper programs issued by Henkel KGaA and Henkel Polska Spzoo (DM 160 million) and a CHF bond for DM 248 million issued by Henkel KGaA, which is also unsecured, redeemable in the year 2001.

	Henkel Group				
	Residual term			Dec. 31, 1996	Dec. 31, 1995
	more than 5 years	between 1 and 5 years	up to 1 year	Total	
Bonds	-	248	160	408	400
Loans from employee welfare funds of the Henkel Group	-	45	52	97	44
Bank loans and overdrafts (including amounts secured)	21	87	1,200	1,308	868
				(48)	(47)
Trade accounts payable	-	-	1,251	1,251	1,134
Notes payable	-	-	376	376	316
Accounts payable to affiliated companies	-	-	73	73	47
Accounts payable to other companies in which participations are held	-	-	35	35	31
Liabilities in respect of taxation	-	-	90	90	82
Liabilities in respect of social security	-	-	60	60	51
Other liabilities	34	24	875	933	803

(including amounts secured)				(3)	(4)
	55	404	4,172	4,631	3,776
(including amounts secured)				(51)	(51)

	Henkel Group				
	Residual term Dec. 31, 1996 Dec. 31, 1995				
	more than 5 years	between 1 and 5 years	up to 1 year	Total	
Bonds	-	248	144	392	383
Loans from employee welfare funds of the Henkel Group	-	-	29	29	24
Bank loans and overdrafts	-	-	388	388	177
Trade accounts payable	-	-	191	191	228
Notes payable	-	-	278	278	230
Accounts payable to affiliated companies	-	-	874	874	725
Accounts payable to other companies in which participations are held	-	-	18	18	15
Liabilities in respect of taxation	-	-	5	5	4
Liabilities in respect of social security	-	-	10	10	9
Other liabilities	29	-	570	599	429
	29	248	2,507	2,784	2,224

The liabilities of Henkel KGaA are not secured. The total amount of liabilities in the Henkel Group secured as at December 31, 1996, amounted to DM 51 million.

(20) Deferred income

([Annual Financial Statements - Henkel Group Consolidated Balance Sheet - Shareholders' Equity and Liabilities](#), [Annual Financial Statements - Henkel KGaA Balance Sheet - Shareholders' Equity and Liabilities](#))

The amounts carried forward as deferred income on the liabilities side of the balance sheets represent amounts already received relating to future years.

Contingent liabilities and other financial commitments

(21) Contingent liabilities

	Henkel Group		Henkel KGaA	
	Dec. 31, 1996	Dec. 31, 1995	Dec. 31, 1996	Dec. 31, 1995
Bills and notes discounted	53	48	3	4
Guarantees	31	19	375	461
Collateral	10	11	-	-

The contingent liabilities of Henkel KGaA under guarantees include DM 371 million relating to guarantees for liabilities of Group companies.

(22) Other financial commitments

Payment obligations under rent, leasehold and leasing agreements are shown at the total amounts payable up to the earliest date when they can be terminated. Together with order commitments for tangible [fixed assets](#) and potential liabilities in respect of payments on shares not yet called up they amounted to DM 536 million in the Group at the end of 1996 and DM 172 million for Henkel KGaA; they include DM 7 million for Henkel KGaA in respect of obligations towards [affiliated companies](#).

At the balance sheet date there was a conditional commitment of DM 2,010 million outstanding in connection with the takeover offer made by HC Investments Inc., Gulph Mills, USA, a wholly-owned indirect subsidiary of Henkel KGaA, for the remaining shares in Loctite Corporation, Hartford, USA, which was due to expire on January 3, 1997. The takeover offer was successfully concluded on January 3, 1997, and the above-mentioned amount paid to the former Loctite shareholders.

(23) Financial derivatives

Use of financial derivatives

	1996		Henkel Group 1995	
	Nominal value	Market value	Nominal value	Market value
Currency derivatives	2,629	- 35	1,250	+ 1
Interest rate derivatives	747	- 20	502	- 12
	3,376	- 55	1,752	- 11

Financial derivatives are used for the management of currency exposure and interest rate risks in connection with trading operations and the resultant financing requirements. Contracts of this kind are entered into purely for the purpose of hedging such risks and no additional risks are involved as far as the Company is concerned. Only marketable derivatives are used, which can be simulated and evaluated by our own computer systems. All the relevant activities are centrally coordinated by Henkel KGaA's Corporate Treasury. Portfolio management, settlement and accounting are kept physically and organizationally separate from the trading function. The counterparties are German and international banks of the highest standing.

The nominal amounts shown are net of balancing contracts only when such contracts match exactly in scope, nature and maturity. Fair market values are arrived at by valuing the open contracts at market prices, ignoring any opposing movements in value of the underlying transactions.

Most of the currency derivatives are hedging instruments matching the amount and maturity of financing arrangements within the Group. The remaining currency derivatives (forward exchange contracts and options) provide forward exchange cover for receipts and payments in foreign currency in respect of sales and purchases of goods.

All interest rate derivatives are valued together with internal and external financing arrangements of the Group. Adverse movements in the market therefore do not require any additional provisions to be made.

Notes on the Statement of Income

(figures in DM millions, unless stated otherwise)

(24) Sales

([Annual Financial Statements - Henkel Group Consolidated Statement of Income](#), [Annual Financial Statements - Henkel KGaA Consolidated Statement of Income](#))

Analysis by product groups

	Henkel Group			Henkel KGaA		
	1996	1995	Change %	1996	1995	Change %
Chemical Products	4,186	4,025	+ 4	1,545	1,619	- 5
Metal Chemicals	1,044	949	+ 10	61	120	- 49
Industrial Adhesives/Technical Consumer Products	2,505	2,165	+ 16	689	731	- 6
Cosmetics/Toiletries	2,677	1,377	+ 94	624	615	1
Detergents/Household Cleansers	4,295	4,096	+ 5	1,587	1,575	1
Institutional Hygiene	1,414	1,371	+ 3	77*	398	- 81
Royalty income and subsidiary activities	180	215	- 16	592	582	2
	16,301	14,198	+ 15	5,175	5,640	- 8

* After transfer of the [hygiene](#) business to Henkel-Ecolab GmbH & Co. OHG, Düsseldorf.

Analysis by markets

	Henkel Group			Henkel KGaA		
	1996	1995	Change %	1996	1995	Change %
Germany	4,507	4,093	+ 10	3,258	3,612	- 10
Rest of Europe	7,679	6,805	+ 13	1,396	1,477	- 5
North America	1,886	1,633	+ 15	115	122	- 6
Latin America	644	512	+ 26	98	108	- 9
Africa	253	227	+ 11	69	69	-
Asia, Australia	1,332	928	+ 44	239	252	- 5
	16,301	14,198	+ 15	5,175	5,640	- 8

(25) Cost of sales

([Annual Financial Statements - Henkel Group Consolidated Statement of Income](#), [Annual Financial Statements - Henkel KGaA Consolidated Statement of Income](#))

This heading comprises the manufacturing cost of products sold and the purchase cost of merchandise sold. Manufacturing cost includes production-related costs such as direct materials, labor and energy costs, as well as costs which can be attributed such as depreciation of production plant, repair costs and operating taxes. Interest charges are not included. The heading also includes markdowns on the valuation of inventories. Amortization of purchased goodwill included under this heading in the previous year has been reclassified to a heading of its own to make the financial statements more informative.

(26) Selling and distribution costs

([Annual Financial Statements - Henkel Group Consolidated Statement of Income](#), [Annual Financial Statements - Henkel KGaA Consolidated Statement of Income](#))

This heading includes the costs of the marketing organization, of distribution, advertising and market research, and of customer-specific technical advisory services.

(27) Research and development costs

([Annual Financial Statements - Henkel Group Consolidated Statement of Income](#), [Annual Financial Statements -](#)

[Henkel KGaA Consolidated Statement of Income](#))

These comprise the costs of research and of product and process development.

(28) Administrative expenses

[\(Annual Financial Statements - Henkel Group Consolidated Statement of Income, Annual Financial Statements - Henkel KGaA Consolidated Statement of Income\)](#)

Administrative expenses include the personnel and non-personnel costs of the administration departments.

(29) Amortization of goodwill

[\(Annual Financial Statements - Henkel Group Consolidated Statement of Income\)](#)

This heading shows the amortization charged on goodwill which has not been set off against reserves since 1993.

(30) Restructuring costs

[\(Annual Financial Statements - Henkel Group Consolidated Statement of Income, Annual Financial Statements - Henkel KGaA Consolidated Statement of Income\)](#)

The costs of plant closures and relocation of premises and of early retirement schemes and redundancy payments are shown under this heading. Payroll costs of DM 99 million are included under this heading in the Group and DM 81 million in the financial statements of Henkel KGaA.

(31) Other operating income

[\(Annual Financial Statements - Henkel Group Consolidated Statement of Income, Annual Financial Statements - Henkel KGaA Consolidated Statement of Income\)](#)

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Gains on disposal of fixed assets	21	25	4	10
Revaluations of tangible fixed assets	-	2	-	-
Income from release of provisions	47	65	37	30
Income from release of bad debt reserves	21	7	7	1
Other operating revenue	28	77	5	28
	117	176	53	69

Other operating revenue includes cost reimbursements and refunds.

(32) Other operating charges

[\(Annual Financial Statements - Henkel Group Consolidated Statement of Income, Annual Financial Statements - Henkel KGaA Consolidated Statement of Income\)](#)

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Amounts receivable written off	46	51	5	12

Sundry taxes	6	3	-	-
Other operating expenses	48	77	15	19
	100	131	20	31

Other operating expenses include amounts provided for services to be rendered to customers under guarantee and for the sake of customer goodwill, and leasehold payments.

(33) Financial items

(Annual Financial Statements - Henkel Group Consolidated Statement of Income, Annual Financial Statements - Henkel KGaA Consolidated Statement of Income)

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Income from participations				
in affiliated companies	1	2	164	79
in other companies	4	3	25	24
Share of profits less losses of associated companies	177	170	-	-
Income from profit and loss transfer agreements	4	3	70	64
Gains on disposal of financial assets and marketable securities	40	7	40	5
Revaluations of financial assets and amounts recapitalized following external tax audit	-	1	4	66
Interest and similar income				
from affiliated companies	-	-	47	22
from others	52	52	13	13
Other financial income	23	27	1	1
Write-downs of financial assets and marketable securities	- 10	- 1	- 10	- 45
Losses taken over under profit and loss transfer agreements	-	-	- 1	- 1
Interest charges payable				
to affiliated companies	- 7	- 5	- 28	- 34
to others	-162	-142	- 82	- 71
Other financial charges	- 91	- 82	- 23	- 8
	+ 31	+ 35	+220	+115

(34) Changes in special accounts with reserve element

(Annual Financial Statements - Henkel KGaA Consolidated Statement of Income)

	Henkel KGaA	
	1996	1995
Income from release of valuation adjustment write-downs on fixed assets	13	14
Amounts released from other special accounts with reserve element	-	5
Amounts allocated to other special accounts with reserve element	- 1	-
	+ 12	+ 19

(35) Taxes on income

(Annual Financial Statements - Henkel Group Consolidated Statement of Income, Annual Financial Statements -

Henkel KGaA Consolidated Statement of Income)

In the financial statements of Henkel KGaA amounts totaling DM 16 million (1995: DM 14 million) charged on to other companies in the same "tax group" in respect of municipal trade tax on income are set off against the tax charge.

Operating taxes - such as real property tax, municipal trade tax on capital, net assets tax and motor vehicle tax - are charged in the operating result. They amount to DM 83 million (1995: DM 67 million) in the Group. Operating taxes in the statements of Henkel KGaA amount to DM 5 million (1995: DM 2 million after deducting the amounts charged on to other companies in the same "tax group").

(36) Depreciation

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Scheduled depreciation and write-downs on tangible and intangible fixed assets	925	783	251	262
Exceptional depreciation and write-downs on tangible and intangible fixed assets	47	21	18	8
Write-downs on financial assets	10	-	10	45
	982	804	279	315

(37) Cost of materials

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Cost of raw materials and supplies and of goods purchased for resale	6,569	5,912	2,251	2,507
Cost of outside services	240	257	198	233
	6,809	6,169	2,449	2,740

(38) Payroll costs

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Wages and salaries	2,767	2,443	854	870
Social security contributions and social assistance	570	507	139	139
Pension costs	299	291	171	178
	3,636	3,241	1,164	1,187

(39) Number of employees by function*

	Henkel Group		Henkel KGaA	
	1996	1995	1996	1995
Production	22,983	21,407	3,868	4,280
Sales	12,399	10,329	1,800	1,737
Research and development	3,257	3,001	1,260	1,425
Administration	7,738	6,991	1,889	1,773
	46,377	41,728	8,817	9,215

*) annual average excluding apprentices, work experience students and trainees

(40) Value added

	Henkel Group			
	1996		1995	
		%		%
Net sales/Other income	16,720	100.0	14,639	100.0
Cost of materials	6,809	40.7	6,169	42.1
Fixed asset depreciation	982	5.9	804	5.5
Other expenses	4,167	24.9	3,365	23.0
Value added	4,762	28.5	4,301	29.4
Shared between:				
Employees	3,636	76.4	3,241	75.4
Public sector	350	7.3	343	8.0
Providers of capital	261	5.5	229	5.3
Shareholders	181	3.8	160	3.7
Minority interests	70	1.4	55	1.3
Retained in the business	264	5.6	273	6.3

(41) Total emoluments of members and former members of the Supervisory Board, Shareholders' Committee and Management Board

The total emoluments paid to members of the Supervisory Board for the 1996 fiscal year amounted to TDM 700 (TDM = thousand DM), those paid to members of the [Shareholders' Committee](#) to TDM 1,800. The personally liable Managing Associates and other members of the Management Board received remuneration totaling TDM 13,033 for the year under review.

TDM 52,774 has been provided for pension commitments towards former members of the Management Board of Henkel KGaA and former managers of its legal predecessor and their surviving dependents. Amounts paid during the year under review totaled TDM 8,212.

Loans amounting to TDM 550 were advanced to members of the Management Board during the 1996 fiscal year. Amounts totaling TDM 100 were repaid. Loans outstanding at the end of 1996 included under the heading "Other assets" amounted to TDM 850, including TDM 300 advanced to personally liable Associates. The loans, which for the most part are secured by mortgages, are for terms of up to 5 years and are subject to interest at the Bundesbank's discount rate up to a maximum of 5.5 percent.

(42) Recommendation for appropriation of the profit of Henkel KGaA

The personally liable Managing Associates, the [Shareholders' Committee](#) and the Supervisory Board recommend that the unappropriated profit of TDM 181,122 for the year ended December 31, 1996, be applied as follows:

1. Payment of a dividend of DM 1.20 per ordinary share of DM 5 par value (on capital of TDM 432,993 ranking for dividend) = TDM 103,918.
2. Payment of a dividend of DM 1.30 per preferred share of DM 5 par value (on capital of TDM 296,938 ranking for dividend) = TDM 77,204.

Düsseldorf, February 21, 1997

The personally liable Managing Associates of Henkel KGaA

Dr. Hans-Dietrich Winkhaus
Dr. Klaus Morwind
Dr. Roland Schulz
Prof. Dr. Uwe Specht

The [Shareholders' Committee](#)

Albrecht Woeste
Chairman

Auditors' Report

The accounting records, the [annual financial statements](#) and the consolidated financial statements, which we have audited in accordance with professional standards, comply with the German legal regulations and the Company's statutes. The [annual financial statements](#) and the consolidated financial statements present a true and fair view of the net worth, financial position and results of the Company and of the Group in compliance with accounting principles generally accepted in Germany. The management report on the situation of the Company and of the Group is consistent with the [annual financial statements](#) and the consolidated financial statements.

Düsseldorf, February 27, 1997

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Hausmann
Wirtschaftsprüfer

Dr. Kühn
Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board has fulfilled the responsibilities incumbent upon it by law and under the Company's statutes. The Management Board has informed the Supervisory Board every three months in writing about sales figures, earnings, [capital expenditure](#), activities in the field of [research and technology](#), acquisitions and joint ventures, and the numbers of employees. These reports have included relevant information about the performance of the business of each division and by geographical region.

At the three meetings of the Supervisory Board held during the year the Management Board has reported in detail on the performance and earnings of the business and has answered questions raised by the Supervisory Board, particular attention being paid to the strategy and business development of the [Industrial Adhesives/Technical Consumer Products](#), [Detergents/Household Cleansers](#) and [Metal Chemicals](#) business sectors. Budget projections have been presented in summary form. The main items of [capital expenditure](#) in 1996 and 1997 have been outlined. The use of derivative instruments for hedging interest rates and the internal earnings reporting system have been explained. The Supervisory Board was also kept informed about the strategy for the takeover of Loctite and its progress.

The [annual financial statements](#) of Henkel KGaA, the consolidated financial statements of the Group together with the management report, the recommendation for the appropriation of profit and the report by the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, have been laid before the Supervisory Board.

The [annual financial statements](#) and the consolidated financial statements together with the management report for

the year ended December 31, 1996, have been given an unqualified opinion by the auditors. The Supervisory Board has noted and approved the results of the auditors' examination.

The Supervisory Board has examined the [annual financial statements](#), the management report, and the recommendation for the appropriation of profit. After concluding its own examination the Board has found no grounds for objections. The Supervisory Board accordingly approves the [annual financial statements](#) and the recommendation by the personally liable Associates for the appropriation of profit.

Düsseldorf, March 10, 1997

The Supervisory Board
Albrecht Woeste
(Chairman)

Corporate Bodies

Dr. Dr. h.c. Konrad Henkel
Honorary Chairman of the Henkel Group

Supervisory Board

Albrecht Woeste
Chairman
Owner of R. Woeste Group

Gottfried Neuen
Vice Chairman
Chairman of the Works Council of Henkel KGaA

Dr. Ulrich Cartellieri
Member of the Executive Board of Deutsche Bank AG

Ursula Fairchild
Photographer

Johann-Christoph Frey
Investment Banker

Benedikt-Joachim Freiherr von Herman
Forester

Dr. Klaus Dieter Leister
Former Secretary of State

Hans Mehnert
Member of the Works Council of Henkel KGaA

Herbert Puderbach
Chairman of the Management Personnel Representatives of Henkel KGaA

Erich Ruch
General Manager of the Düsseldorf administration of IG Chemie-Papier-Keramik

Jürgen Sarrazin

Chairman of the Board of Managing Directors of Dresdner Bank AG

Kläre Spaas
Chairwoman of the Works Council of Thera Cosmetic GmbH

Hans Vonderhagen
Member of the Works Council of Henkel KGaA

Jürgen Walter
Member of the Governing Board of IG Chemie-Papier-Keramik

Dieter Wendelstadt
Chairman of the Supervisory Board of Colonia Konzern AG

Winfried Zander
Vice Chairman of the Works Council of Henkel KGaA

Shareholders' Committee

(Preface, (9) Subscribed capital, (41) Total emoluments of members and former members of the Supervisory Board, Shareholders' Committee and Management Board, (42) Recommendation for appropriation of the profit of Henkel KGaA)

Albrecht Woeste
Chairman
Owner of R. Woeste Group

Christoph Henkel
Vice Chairman
Business Executive

Dr. Jürgen Manchot
Vice Chairman
Chemist

Walter Huneke
Private Investor

Helmut Maucher
Chairman and Delegate of the Board of Nestlé S.A.

Dr. Christa Plichta
Physician

Dr. Wolfgang Röller
Chairman of the Supervisory Board of Dresdner Bank AG

Prof. Dr. Dr. Helmut Sihler
Former President and Chief Executive Officer of Henkel KGaA

Management Group

JV Henkel-Ecolab

Bruno Deschamps
CEO Europe

Affiliated Companies

(High-tech input for more efficient products and processes, International brand-name products markets, Changes in Fixed Assets - Henkel Group, Changes in Fixed Assets - Henkel KGaA, (3) Financial assets, (5) Receivables and other assets, (14) Participating certificates, (19) Liabilities, (22) Other financial commitments, (33) Financial items)

Klaus Behrens
Brazil

Ron Bennett
Great Britain

Eberhard Buse
Heidelberg/Germany

Alfredo Gangotena
Hong Kong

Denis Claude B. de Gersigny
South Africa

Jorge Guixá
Mexico

Axel Kneip
Japan

Dirk-Stephan Koedijk
Belgium/Netherlands

André Lesaichere
France

Alois Linder
Spain

Robert Lurcott
USA

Dr. Jean-Pierre de Montalivet
France

Rolf Münch
Switzerland

Dr. Can Paker
Turkey

Claes Rönnerberg
Sweden

Dr. Heinz-Gerd Smolka
Illertissen/Germany

Dr. Friedrich Stara
Austria

Dr. Vincenzo Vitelli
Italy

Management Board of Henkel KGaA

President and Chief Executive Officer

Dr. Hans-Dietrich Winkhaus *

Chemical Products

Dr. Jens Conrad (until May 31, 96)

Dr. Harald Wulff (from June 1, 96)

Metal Chemicals/Information Systems

Dr. Jochen Krautter

Industrial Adhesives/Technical Consumer Products

Guido De Keersmaecker

Cosmetics/Toiletries

Prof. Dr. Uwe Specht *

Detergents/Household Cleansers

Dr. Klaus Morwind *

Finance/Logistics

Dr. Ulrich Lehner

Research/Technology

Dr. Wilfried Umbach

Personnel/Industrial and Institutional Hygiene

Dr. Roland Schulz *

* Personally Liable Managing Associates

Operating Management of Henkel KGaA

Technical Consumer Products

Hans J.M. Boekkerink

Integration Management Loctite

Pierre Brusselmans

Law

Dr. Karl Grüter

Cosmetics/Toiletries Germany

Thorsten Hagenau

Organic Specialty Chemicals

Dr. Jochen Heidrich

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Glossary

Chemical and technical terms

Acrylates

([Metal Chemicals](#), [Industrial Adhesives/Technical Consumer Products](#))

Salts of acrylic acid. Used especially as raw materials for special polymers.

Additives

([Chemical Products](#), [Oleochemicals](#))

Substances which, added in small quantities, significantly improve certain properties of a substance or mixture of substances, or facilitate their processing.

Alkyl polyglycosides (APG)

([Outlook](#), [Innovative products with advanced surfactants](#), [Chemical Products](#), [Oleochemicals](#))

New type of surfactants which are manufactured exclusively from the natural raw materials starch or glucose and fatty alcohols.

Anaerobic

([Industrial Adhesives/Technical Consumer Products](#))

Conditions characterized by the absence of free oxygen.

Beta carotene

([Chemical Products](#), [Oleochemicals](#))

Most common pigment found in plants and fruits, and thus also a food substance consumed by man. Beta

carotene acts as an anti-oxidant. A portion of the digested beta carotene is converted enzymatically by the body into vitamin A.

Conversion treatment

Application of a thin protective layer of inorganic salts or oxides to metal surfaces as a corrosion inhibitor and to improve the adhesion of subsequent coatings.

Copper extraction

Process for extracting copper from copper ores, and also for the recovery of copper from scrap. Henkel has developed a particularly environmentally compatible and energy-saving process for this sector.

Corrosion protection

Protection of metal components from rust damage through a passivating process in which the metal surface undergoes physico-chemical change.

Derivatives

In chemistry, a common name for substances derived from a chemical compound - often in only one reaction step - which are closely related to that compound in terms of their chemical utilization.

DIN ISO 9001

International standard that describes a universal and comprehensive quality assurance system covering all product stages from development through materials procurement and production to shipment to the customer.

Emulsifiers

Substances which enhance the cohesion of stable emulsions. Emulsions are mixtures in which fine droplets of a liquid are uniformly distributed in another liquid - for example oil in water.

Enzymes

Biocatalysts which make possible chemical changes in living organisms and which are also used in industrial processes.

Ethoxylation

Reaction between fatty alcohols and ethylene oxide to form fatty acid polyglycol ethers (non-ionic surfactants).

Fatty acids

([Segment reporting](#))

Substances occurring in all vegetable and animal fats and oils, bound to glycerine.

Fatty alcohols

([Chemical Products](#))

Long-chain alcohols which are obtained at Henkel from fatty acid methyl esters or directly from fats by reaction with hydrogen (hydrogenation). Fatty alcohols are an important raw material for surfactants.

Fatty alcohol ether sulfates

Anionic surfactants with high foaming capacity and good dermatological compatibility, used in cosmetic preparations and hand dishwashing detergents.

Fatty alcohol sulfates (FAS)

([Oleochemicals](#))

Major group of surfactants based on fatty alcohols.

Glycerine

([Chemical Products](#), [Oleochemicals](#))

One of two major components in fats and oils; used as a solvent and as an intermediate product for numerous other substances.

Oleochemistry

Term for industrial chemistry involving natural fats and oils, used in analogy to the term petrochemistry.

Petrochemical products

Collective name derived from petroleum for substances that are either obtained from mineral oil and natural gas or manufactured by chemical synthesis.

Phosphatization

Treatment of metal surfaces (steel, galvanized steel) to give them a thin coating of phosphate as protection against corrosion.

Polymers

Substances, for example plastics, that are composed of a series of smaller basic units (monomers).

Polyurethanes

Plastics with an extremely wide range of specifically adjustable applicational properties; used for adhesives, sealants, foams, molded articles and many other applications.

Responsible Care®

A worldwide initiative developed by the chemical industry. It stands for commitment to continuous improvement in safety and the protection of health and the environment, going beyond the relevant statutory requirements.

Sulfates

Salts of sulfuric acid.

Surfactants

Surface-active substances which reduce the surface tension of water.

Financial Terms

Associated company

A business undertaking which is neither under the unified management control of nor majority-owned by the parent company, but over which a significant influence is exercised (shareholding of more than 20 percent).

Capital reserves

Reserves accumulated out of the premium on the issue of shares. The premium is that part of the purchase price which the providers of capital have paid for the shares in excess of their nominal value.

Debt discount

Amount by which the total of a loan repayable on redemption exceeds the amount received.

Deferred charges and deferred income

Payments made or received in advance during the current accounting period which relate to a period after the balance sheet date.

Deferred taxation

Timing differences in the tax charge shown in the published financial statements of Henkel KGaA and of the Group compared with the computations for tax purposes. Showing the differences under this heading creates a sensible correlation between published net earnings and the tax charge actually attributable.

Equity method of valuation

Valuing shareholdings in associated companies at the appropriate proportion of their net assets and profit or loss for the year.

Fixed assets

Assets intended to be used long term.

Going concern concept

Assets and liabilities are valued on the assumption that the business will continue in operational existence.

Goodwill

([Consolidation principles](#))

The difference between the purchase price for a business and the value of its net assets (assets less liabilities).

Group companies

Henkel KGaA and all subsidiary companies, regardless of whether they have been included in the consolidated financial statements or not.

LIFO method

The LIFO method (last in, first out) is a simplified method of valuating inventory items of the same kind, based on the assumption that the latest items acquired are used first.

Minority interests

Minority shareholdings in companies in the Henkel Group, not held by Henkel KGaA or by other companies in the Group.

Revenue reserves

([\(11\) Revenue reserves](#))

Reserves accumulated out of undistributed profits.

Shareholders' equity

Capital permanently available to the company in the form of amounts paid in or profits retained.

Special accounts with reserve element

In the published financial statements (drawn up in accordance with company law) this heading comprises amounts which have been charged against profits purely on the grounds of tax regulations. Such amounts can include:

- o untaxed reserves which are taxed only when they are released to income; or
- o depreciation and write-downs in excess of those charged under company law regulations.

Subsidiary companies

(Companies included in the consolidation)

All business undertakings which are controlled directly or indirectly by Henkel KGaA as a result of a majority shareholding and/or unified management control.

Major 1997 Events To Date

December 1996/January 1997, Düsseldorf

The Henkel parent plant in Düsseldorf-Holthausen and the [Metal Chemicals](#) subsidiary, Collardin in Herborn-Schönbach, Hessen, pass comprehensive ecological audits and are certified in accordance with the Eco-Audit Directive of the European Union (EU). Registration is with Lloyd's Register Quality Assurance Ltd. and the process was concluded with the publication of detailed declarations on environmental protection.

January 1997, Düsseldorf

Once again the outstanding credit rating of Henkel is confirmed by the US American rating agency Standard & Poor's. The commercial paper program is given an A1+, and the Swiss franc bond of Henkel receives an AA-.

January 1997, Nice

Henkel-Ecolab concludes a worldwide contract with Club Méditerranée in Nice, France. The [Industrial and Institutional Hygiene](#) company is to provide Club Med holiday villages in 45 countries around the world with [hygiene](#) systems and products.

January 1997, Texas

Henkel takes over Diversified Technology Inc. (DTI), San Antonio, Texas/USA. The company specializes throughout the world in the field of lubricants for the beverage can industry and is regarded as the technological leader in this field. Our international [Metal Chemicals](#) business involving the beverage can industry has thus undergone further expansion.

February 1997, India

Business activities in India boosted by two joint ventures, Henkel Teroson India Pvt. Ltd. and Henkel Chembond [Metal Chemicals](#) Ltd., which are active in the fields of adhesives and sealants for the automotive industry, and metal surface treatment technology and products. With a shareholding of 49 percent, our local partner in Henkel Teroson India Pvt. Ltd. (which is headquartered in Gurgaon, Haryana) is the Anand Group, New Delhi, a specialist for automotive components and associated products. The company offers a complete range of internationally proven adhesives and sealants for the automobile producers with plants in India, such as Suzuki, Telco, Daewoo, Ford, Mercedes-Benz, General Motors, Honda, Peugeot, Fiat and Hyundai. Henkel Chembond Chemicals Ltd., Bombay, will be manufacturing and distributing products for the chemical pretreatment of metals. Its customers are the international and national companies operating in India in the capital goods, automobile and automotive components sectors.

March 1997, Düsseldorf

Effective retrospectively as of January 1, 1997, Henkel takes over the three companies Hackman Havi Oy Ab and TAMKOS Oy, both in Helsinki, Finland, and Hackman Havi AB in Stockholm/Sweden. The object of the acquisition is to strengthen our business activities in the detergents and household cleansers, and also the cosmetics

sectors in the Nordic countries.

March 1997, Düsseldorf

Henkel [Metal Chemicals](#) is renamed Henkel Surface Technologies.

March 1997, Shanghai

Henkel enters into an agreement with the renowned Jiao-Tong University of Shanghai covering the establishment of a Management Training Center. Here employees of the 14 Henkel companies active in the People's Republic of China will be provided with modern expertise in all areas of corporate management, and particularly in the fields of marketing, sales and organization, tailored to the requirements of the Chinese markets. The training course and curriculum will be aligned both to the international educational standards applicable throughout the Henkel Group, and to the national requirements which prevail in China.

Ten-Year Summary

(figures in DM millions, unless stated otherwise)

Henkel Group										
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sales	9,256	10,252	11,639	12,017	12,905	14,101	13,867	14,069	14,198	16,301
Operating profit	571	600	646	687	761	681	550 ⁶⁾	671 ⁶⁾	725	744
Earnings before taxes on income	493	581	655	689	742	621	584	677	760	775
Net earnings	292	352	404	429	443	402	385	464	488	515
DVFA/SG earnings per DM 5 share (in DM)	2.55	3.05	3.10	3.20	3.10	3.05	3.20	3.35	3.35	3.70
Cash flow	830	827	1,035	1,203	1,323	1,397	1,443	1,288 ⁷⁾	1,249	1,498
- as % of sales	9.1	8.1	8.9	10.0	10.3	9.9	10.4	9.2	8.8	9.2
Total assets	6,779	7,442	8,540	9,163	9,914	10,015 ⁵⁾	10,376	10,487	11,620	13,444
Fixed assets	3,085	3,313	4,210	4,503	4,789	5,278	5,485	5,449	6,554	7,509
Current assets	3,694	4,129	4,330	4,660	5,125	4,737	4,891	5,038	5,066	5,935
Borrowings	4,059	4,525	5,127	5,204	5,848	6,596	6,705	6,417	7,317	8,628
Shareholders' equity ¹⁾	2,720	2,917	3,413	3,959	4,066	3,419 ⁵⁾	3,671	4,070	4,303	4,816
- as % of total assets	40.1	39.2	40.0	43.2	41.0	34.1 ⁵⁾	35.4	38.8	37.0	35.8
Net return on sales (in %) ²⁾	3.2	3.4	3.5	3.6	3.4	2.9	2.8	3.3	3.4	3.2
Return on shareholders' equity (in %) ³⁾	11.4	13.3	13.6	12.3	11.6	11.2	11.6	12.8	12.3	11.9
Total return on investment (in %) ⁴⁾	11.3	11.2	12.0	11.1	10.4	9.7	8.3	8.8	8.9	8.3
Capital expenditure	1,517	864	2,012	1,003	1,353	2,197	981	1,007	2,109	1,630
Research and development costs	277	308	359	374	400	414	402	369	369	401
Number of employees (annual average)										
- Germany	16,013	16,118	16,155	16,182	18,687	17,635	16,617	15,313	14,684	15,473
- Abroad	18,147	18,900	20,809	22,028	23,353	24,561	23,853	25,277	27,044	30,904

Total 34,160 35,018 36,964 38,210 42,040 42,196 40,470 40,590 41,728 46,377

- 1) incl. participating certificates and participating loans
- 2) net earnings ÷ sales
- 3) net earnings ÷ average equity capital over the year
- 4) earnings before taxation and interest expense ÷ average total equity and liabilities over the year
- 5) at Jan. 1, 1993
- 7) adjusted to bring cash flow statement into line with International Accounting Standards (IAS)

Henkel KGaA

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Sales	4,040	4,190	4,649	4,953	5,250	5,464	5,460	5,599	5,640	5,175
Operating profit	116	139	125	174	214	114	33 ⁶⁾	89 ⁶⁾	132	68
Net earnings	152	153	161	174	141	126	116	161	160	254
Dividend per DM 5 ordinary share (in DM)	0.50	0.55	0.60	0.65	0.70	0.70	0.70	0.90	1.05	1.20 ⁸⁾
Dividend per DM 5 preferred share (in DM)	0.80	0.85	0.90	0.95	1.00	1.00	1.00	1.10	1.15	1.30 ⁸⁾
Total dividends	68.0	78.6	102.5	109.5	116.5	116.5	116.5	144.6	159.9	181.1 ⁸⁾
Capital stock	575	632.5	702.5	702.5	702.5	702.5	702.5	730	730	730
- Ordinary shares	400	400	400	400	400	400	400	400	400	433
- Preferred shares	175	232.5	302.5	302.5	302.5	302.5	302.5	330	330	297

- 6) adjusted to show operating profit after charging restructuring costs
- 8) proposed

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