



Speech of **Prof. Dr. Ulrich Lehner**

Chairman of the Management Board

Annual General Meeting of Henkel KGaA

Düsseldorf, April 18, 2005

- Check against delivery -

**Statement by Prof. Dr. Ulrich Lehner, Chairman of the
Management Board of Henkel KGaA, on the occasion of the
Annual General Meeting of April 18, 2005**
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Dear Shareholders, Friends of the Henkel Group, Ladies and Gentlemen,
welcome to our fiscal 2004 Annual General Meeting.

The year 2004 was characterized by a difficult economic environment, at least from a regional point of view. Nevertheless, we were successful in all our businesses. Strong market initiatives and strategically important acquisitions, rendered possible through the commitment of our employees, provided the basis for a very eventful and also successful year.

I will therefore be summarizing the performance of the individual **business sectors** and explaining their **strategies**, and providing you with details on the status and performance of our major **acquisitions in the USA**.

Under the **globalization** heading, I will be giving you a rundown of our activities in our main regional markets and providing you with a status report on our **restructuring measures**.

And as always, I will be citing some of the more outstanding examples of our successful **research and innovation activities**. And then, to finish, I will inform you of our **outlook** for the current financial year.

Our expectations concerning the world economic situation likely to characterize the year under review were largely confirmed. In 2004, the world economy grew by more than 3.5 percent. At 2 percent, growth in Europe was moderate by comparison, due to weak domestic demand particularly in the first half of the year.

Overall, private consumption trailed behind macro-economic development. The industrial sector, however, performed better than the consumer sector, which was subject to strong competitive pressure.

The American economy developed significantly better than Europe, with a plus of more than four percent. Asia also posted a five percent increase, with Japan growing by almost three and, in particular, China by nine percent, thus continuing the trend of recent years: growth is rather achieved in Eastern Europe, the USA and Asia than in Germany and Western Europe.

Henkel has continued to perform successfully. Our strategic decisions in relation to our regional objectives and product structure have been fully validated with the result that all our business sectors were able to post a significant rise in both sales and profits in 2004. **Group sales** rose by 12.3 percent to 10.6 billion euros with a significant contribution coming from successful acquisitions made in the period under review.

Foreign exchange rates again had an impact in 2004 with the dollar depreciating further against the euro. This had a negative impact on sales amounting to 3.7 percent. So it was all the more gratifying that we were able to achieve an organic growth rate of 2.9 percent after adjusting for foreign exchange and acquisitions.

Looking at the **regional** breakdown, Europe/Africa/Middle East posted an increase in sales of 2.1 percent, this relatively low figure being largely due to the lack of improvement in Western Europe. We were again able to achieve above-average rates of increase in the growth regions outside of

Western Europe. Sales in Latin America rose by 27.5 percent and by 12.7 percent in Eastern Europe. With an increase in sales of 10.9 percent, results in the Asia-Pacific region were also encouraging.

Overall, in all regions our businesses grew stronger than the markets.

The growth rate of 76.5 percent in North America is due predominantly to the Dial acquisition. I will be dealing with Dial later on, providing more detail about the company generally and the current status of its integration.

There was also another major event affecting the US market to which the major changes exhibited in our key financials are – to a large extent – attributable.

As you will be aware, we have maintained a participation in the US Clorox Company for a number of decades. Our stake ultimately stood at 28.8 percent. After these many years of good relations, we have now severed this bond and, in a multi-staged transaction, exchanged our shares in Clorox for a number of highly profitable product groups that ideally complement our business portfolio, the Clorox stake in Henkel Ibérica, and a sum of cash.

We have thus replaced a financial investment with an operating business. The exceptional gain arising from this exchange transaction has, of course, led to some major changes in our financial position. Further exceptional items were goodwill impairment charges and charges arising from restructuring measures.

For example, our **operating profit**, as expressed by the EBIT figure, rose by 172 percent – from 706 million euros to 1.9 billion euros. Before exceptional items, we registered an EBIT increase of 12.7 percent to 800 million euros.

As you will be aware, Ladies and Gentlemen, effective this year there will no longer be any scheduled goodwill amortization. The relevant profit measure from now on is therefore **earnings before interest, tax and amortization** and before exceptional items. Here, we posted an increase of 19.6 percent to record an ongoing EBITA figure of 1 billion euros.

The **return on capital employed** almost doubled to 30.9 percent compared with the 16.2 percent achieved in the previous year. The reason for this is again the exceptional items arising from the Clorox transaction. Excluding their impact, ongoing ROCE would have fallen to 13 percent due to the acquisitions made by our Laundry & Home Care, Cosmetics/Toiletries and Consumer and Craftsmen Adhesives business sectors.

The improvements in profit achieved are, as yet, unable to offset the significant increase in the capital employed figure. The only business sector to post an increase in ROCE for the year under review was Henkel Technologies.

We use **Economic Value Added – EVA** – as a central internal measure of the increase achieved in shareholder value, i.e. the additional enterprise value created in a reporting period.

A company creates economic value added if the operating profit exceeds the cost of capital. We are pleased to inform you that, in fiscal 2004, all our business sectors achieved a positive EVA. The figure of 1.52 billion euros for the Henkel Group, following 217 million euros in the previous year, is however likewise largely due to the Clorox transaction.

The same applies to our **consolidated net earnings** of 1.74 billion euros. After adjusting for the impact of the Clorox transaction and the effects of restructuring costs and goodwill impairment charges, net earnings amount to 544 million euros or, after deducting minority interests, 543 million euros.

This corresponds to an increase of around 10 percent compared with the comparable figure of the previous year.

Earnings after minority interests also provides the basis each year for the **dividends proposal**. In view of the positive earnings development, the Personally Liable Managing Partners, the Shareholders' Committee and Supervisory Board propose to the Annual General Meeting to increase the dividend payout for both classes of share by 10 eurocent. You will find this proposal in item 2 of the Agenda. This equates to 1.30 euros per preferred share and 1.24 euros per ordinary share.

In line with our dividend policy and our tradition, going back many years, we distribute about one third of the net earnings in the form of dividends and retain two thirds in order to strengthen the company.

You will find further details in the Annual Report, which has been available to you since February 22nd.

Given this fact, Ladies and Gentlemen, I would like to just summarize the highlights of the Henkel Group in fiscal 2004.

I have already dealt with the Clorox transaction.

In the Laundry & Home Care business sector, the acquisition of the US Dial Corporation has enabled us to enter the North American detergents market and also to substantially strengthen our cosmetics business. Dial, with sales in 2003 of around 1.3 billion euros, holds leading market positions in laundry and home care with its Purex brand products, in personal care, and in the air fresheners and canned foods segments.

One year ago, in the same place, I told you that we have no doubt about successfully integrating Dial.

Today, I am pleased to report that the integration of Dial is running according to plan and successfully and, as expected, Dial has been making a positive contribution to the profits of the Henkel Group right from the start.

There are certain processes at Dial that we are examining very closely and from which we intend to learn. Dial boasts particularly favorable organizational and process costs and contributed to the reduction in our overall payroll cost ratio, i.e. the relationship between aggregate personnel expenses and sales, to 19 percent in the year under review. We can also learn from one another on the formulations front.

Through the acquisition of Dial, Henkel has attained the world number 3 position in the detergents and household cleaners market.

This opens up opportunities for us to achieve further growth and also to increase our cost efficiency.

A further acquisition has strengthened our market position in Mexico. There we acquired from the Master Products Group their liquid detergents business operated under the Mas brand, which nicely rounds off our product portfolio.

Part of Dial's business portfolio, namely the Personal Care products bar soaps, liquid soaps and shower gels, has also strengthened our international cosmetics operation. We have also further boosted our hair cosmetics business in the USA through the addition of particularly fashionable hair care and styling products from the US company Advanced Research Laboratories (ARL) that we likewise took over in 2004. Within the styling segment, ARL occupies leading positions in the USA, Canada and Mexico. We have successfully introduced the ARL brand got2b in Germany and Austria. Further European countries will follow.

Having also acquired Indola Cosmetics, we have similarly strengthened our existing European salon business. Indola is particularly active in Italy, the UK, France, Spain and Benelux.

With the acquisition of Sovereign Specialty Chemicals we have markedly strengthened both our Consumer and Craftsmen Adhesives and Henkel Technologies businesses.

One third of Sovereign's sales come from the do-it-yourself and craft trade segments.

In the industrial business, which accounts for two thirds of the sales, Sovereign is a leading manufacturer in the USA.

Through the acquisition of Orbseal LLC, also of the USA, we were able to expand our leading position as a partner to the automotive industry, as well as gain a range of advanced technologies. Orbseal's strength lies in structural components for autobody reinforcement and noise and vibration damping in motor vehicles, and is active in the USA, Australia and the UK.

As you can see, ladies and gentlemen, our acquisition priorities in 2004 were very much aligned to the USA. This is not only due to the fact that a number of particularly interesting targets happened to become available in that particular country, but also to a deliberate strategy of achieving a regional balance in our portfolio.

In 2003, the North America region accounted for just 12 percent of our total Group sales. With the acquisition of Dial, ARL and Sovereign and of the operating businesses taken over from Clorox,

North America will account for around 25 percent of our Group sales this year – an order of magnitude that we initially targeted, and that we now intend to further expand. The market is attractive, significantly more profitable than Western Europe and is currently exhibiting stronger growth rates.

Other promising regions for us in the future are Asia, particularly China and India, as well as Eastern Europe and Latin America. All the suppliers operating in these markets are likewise profiting from higher growth rates.

The main areas of activity in 2005 – which I feel should be regarded as a year of consolidation – are the integration of the acquisitions made and utilization of the ensuing synergies.

Other than that, our focus this year will be on achieving further organic growth and reducing our borrowings. Possible future acquisitions must be in line with our financial strategy.

I would now like to come to the main developments undergone by our business sectors – and again you can find further details in the individual segment report sections included in the Annual Report.

The economic and market conditions facing the **Laundry & Home Care** business sector were difficult worldwide. For the first time in many years, the global market underwent a slight decline due to increasing price competition in many countries.

The weakness of the economies of Western Europe in particular depressed our business results in the first half of the year, particularly in relation to heavy-duty detergents. However, special detergents and cleaners performed successfully.

We have defended our leading position through additional investments in our brands, in quality and in new products, and have successfully resisted the pressure on prices.

At 3.6 billion euros, sales of Laundry & Home Care were 17.7 percent above the level of the previous year; after adjusting for foreign exchange, the increase was 21.9 percent. This rise is due particularly to the acquisition of Dial in the USA.

Naturally the acquisition will have a temporarily negative effect on the return on capital employed (ROCE) as the improvements in profit and synergies will only begin to offset the effects arising from the capital increase – and the increased depreciation and amortization – at a later date.

Operating profit (EBIT) including the Dial results rose by 4.7 percent to 300 million euros. After adjusting for foreign exchange, the improvement was 5.8 percent.

Our **Cosmetics/Toiletries** business sector had to contend with a similarly difficult business climate.

Although our operations in Western Europe profited from encouraging market developments in Italy and Spain, the branded consumer goods business in Germany suffered from declining demand and a further increase in competitive pressure. Our performance in Eastern Europe, China and India was good; in North America, we succeeded in substantially strengthening our cosmetics business through the acquisition of Dial and ARL.

Sales rose by 18.7 percent – or by 21.8 percent after adjusting for foreign exchange – to around 2.5 billion euros.

At 225 million euros including Dial, operating profit (EBIT) was 16.2 percent – 19 percent adjusted – above the level of the previous year.

In the case of our Cosmetics business, too, the higher capital levels arising from the acquisitions impacted the return on capital employed (ROCE), which fell by 8.6 percentage points to 14 percent.

Our **Consumer and Craftsmen Adhesives** business sector is the world leader in its particular market. In 2004, the business performed especially well in Eastern Europe and Asia. Within Western Europe, the growth achieved in the UK was exceptional. In Germany, sales in the consumer segment were kept stable. While our building adhesives business was successful on a worldwide level, sales in Germany declined.

Business in North America was further strengthened by the Sovereign acquisition.

Overall, sales improved by 10.1 percent – 13.8 percent adjusted for foreign exchange – to 1.4 billion euros.

Impacted by increases in the cost of raw materials, operating profit (EBIT) rose by 6.1 percent to 150 million euros. The adjusted increase in profit was 9.3 percent. The return on capital employed (ROCE) fell from 20.7 percent in the previous year to 19.3 percent this time.

Business in the growth regions of Asia-Pacific and Eastern Europe was especially good for the **Henkel Technologies** business sector, with Western Europe and Latin America also returning encouraging results.

In North America, the weakness of the automotive sector, one of our core businesses in the region, left its mark. The acquisition of Sovereign significantly improved our market position in industrial adhesives in the USA.

At 2.8 billion euros, sales exceeded the level for the previous year by 4.7 percent – or 8.8 percent after adjusting for foreign exchange. We are particularly encouraged by the fact that Henkel Technologies posted a 7.7 percent increase in organic sales growth.

At 235 million euros, operating profit (EBIT) improved by 21.5 percent, or by 27.7 percent after adjusting for foreign exchange. The return on capital employed (ROCE) rose to 13.2 percent.

The regular flow of new, innovative products in all our business sectors is an important prerequisite for our business success. Hence the fact that we have long challenged and encouraged our researchers and innovators with the “**Fritz-Henkel Award for Innovation**”. The prizes involved are awarded to teams – usually of an interdisciplinary make-up – that have brought new ideas successfully to the market.

In 2005, for the first time, we conferred an “**Invention Award**” for exceptional research and technology achievements likely to open up additional potential for business. A few months ago, therefore, we honored a total of 48 Henkel scientists and technologists from our Central Research for four innovative and successful projects. You will find out more when you visit our information stands in the foyer.

Expenditure on **research and development** in the year under review amounted to 272 million euros, compared with 257 million euros in the previous year. We protect our technologies with more than 7,600 granted patents and around 2,000 registered designs. We have currently over 5,200 patent applications pending in grant processes at patent offices.

In the Annual Report you will find details of the issues and projects currently being dealt with by our Central Research.

However, I would still like to give you a few examples of the kind of product innovation that we are currently in the process of launching onto the market.

Under the brand name Sil Oxi Perfect 2, we are just now launching a new, liquid detergent with active oxygen booster. This product is significantly easier to handle than powder while offering the same performance.

Under the Fa brand in the cosmetics sector, we are introducing to the market our first wave of products featuring yogurt proteins. These leave the skin feeling silky soft while at the same time creating a special freshness sensation.

Under the Pattex brand, we are offering do-it-yourselfers an assembly adhesive offering an extremely high level of bonding power plus the possibility of easy removal of items after they have been fixed in position, should this ever be required.

Henkel Technologies is introducing a metal treatment product into the market in the form of Bonderite NT. Based on the effects derived from nanotechnology, it protects metal surfaces from corrosion while also enhancing the adhesive strength of surface coatings. In addition, the associated application process is less complex, more cost-effective and more efficient.

Innovations such as those I have just mentioned are crucial for our business success and competitiveness. A further prerequisite is that we continue to adapt our structures and processes to the changing market conditions worldwide.

Restructurings aim at appropriate structures and efficient processes. The new package of measures, with a budgeted cost of around 400 million euros, involves the reorganization of production facilities and the streamlining of administrative functions with the purpose of achieving a sustainable improvement in efficiency and cost effectiveness – as well as keeping up our competitiveness in a changed import and export environment.

From 2007, we expect these measures to yield savings of around 125 million euros per year. In taking these steps, we are responding in a timely fashion to foreseeable changes in our markets. Our aim is to anticipate developments so that we can respond from a position of strength.

In this way, we create further potential for innovation and additional investment in our quality brands.

The decision to reduce employment levels, necessarily associated with this, was not easy to take. We are well aware that the implementation of such measures in the current economic climate is especially delicate.

To the extent that it is possible, however, all ensuing redundancies will – as in the past – be handled in a socially compatible manner in keeping with our tradition and our values, and with the welfare of the employees concerned in our mind. We are holding talks with all corporate bodies and our employees.

Among the quality features that characterize Henkel is our compliance with the recognized principles of **Corporate Governance**. Management, Supervisory Board and Shareholders' Committee have committed themselves to the following three maxims:

- Value creation as the foundation of our managerial approach;
- Sustainability as a criterion for responsible management; and
- Transparency underpinned by an active and open information policy.

Against the background of issues currently under public discussion, I would, however, also like to point out that, for Henkel, good corporate governance should never be reduced to the question as to whether the emoluments of the Management Board should be individually indicated or not. It is our opinion that disclosure of the total compensation figure, split into fixed salary and performance-related components, ensures effective assessment of performance relativity and adequacy.

For Henkel, good corporate governance means, above all else, ensuring effective cooperation in an atmosphere of trust between the corporate bodies and committees operating within the company, and particularly between the Management Board on the one hand and the Supervisory Board and Shareholders' Committee on the other. This goes hand-in-hand with efficient stewardship and control, and active and efficient communication on the development of the corporation with respect to you, our shareholders, and the public at large.

For further details on the subject of Corporate Governance, I would again like to refer you to the Annual Report and information provided on our website.

We have also revised our **Code of Conduct**, which is binding not just on our managerial staff but rather on all our employees. In an international company such as ours, it is especially important that employees base their activities on a common platform of values and behavioral norms beyond any legal or ethnic differences that may exist.

One of the consequences of our common value base is the **Corporate Citizenship Program**, which we have been systematically augmenting for many years now. It was recently integrated under the “Henkel Smile“ umbrella. Our approach in this regard emanates from a deep conviction that companies are well advised to accept corporate social responsibilities that go beyond their specific product responsibilities.

We have already informed you of our various activities under this umbrella, and particularly our support for children’s projects around the world.

We are well aware that our reputation, our good image and the public trust in our company derives from the fact that, almost since the day it was founded, people in authority within the Henkel company have addressed relevant environmental and social issues and taken serious note of society’s expectations of us.

We are convinced that sustainable managing pays off, and we are convinced that we will only continue to enjoy entrepreneurial freedom if we behave in an environmentally aware, socially responsible and ethically acceptable manner.

Because these aspects have a promotional effect on our business success, their relevance is also economic.

We all know that it takes a long time to build up a reputation, but it can also be destroyed within short. Corporate social responsibility is not reflected in terms of how much money is spent on what, but rather in terms of how companies earn their money and whether good corporate citizenship has been duly evidenced.

We commit ourselves not only on a worldwide level but also in Germany, where education has become a major topic.

We all know that science and technology play a key role in securing our living standards and our competitiveness as a community. We also know, however, that technology and the sciences are poorly represented in our current education system.

With the **Hugo Henkel Prize**, awarded on an annual basis, we endeavor to encourage a process of change in this regard. This prize serves to honor pedagogical concepts that successfully promote education in technology and the sciences from class 5 upward at schools in and around Düsseldorf.

Education is a vital factor for the competitiveness and economic future of Germany. Committing to Germany does not just mean continuing to manufacture here but also investing in the nation's education.

For education and education alone is the sole guarantor of jobs in the future.

Ladies and Gentlemen, I would now like to come to the agenda of this Annual General Meeting.

I have already mentioned item 2.

Items 3 to 5 propose ratification of the actions of the corporate bodies.

Under item 6, the Supervisory Board proposes that we appoint KPMG as our auditors.

Items 7 and 8, as already explained by Mr. Woeste, deal with the election of new members to our Shareholders' Committee and Supervisory Board.

Item 9 concerns the annual renewal of the authorization allowing us to purchase our own shares.

Under item 10, you are asked to consider the emoluments of the Supervisory Board and the Shareholders' Committee, and also the associated amendments to the Company's Articles of Association.

For details, I would refer you to the invitation to the Annual General Meeting and the corresponding proposals contained therein.

Allow me, Ladies and Gentlemen, to finish by summarizing the objectives and expectations that we have for fiscal 2005:

I will be repeating the outlook already given at our February press conference on fiscal 2004.

In our estimation, the world economic and political conditions underlying our activities are unlikely to experience any significant change in the current year.

We expect the growth rates of major countries such as the USA, Japan and China to slow slightly. Germany and Western Europe are unlikely to show any major improvement. We anticipate that the highest growth rates will, however, be achieved in Asia and Latin America.

Henkel intends to grow more strongly than its relevant markets. For 2005, we expect organic growth – after adjusting for foreign exchange, acquisitions and divestments – to be in the range of three to four percent.

Before exceptional items, we expect growth in operating profit (EBIT), after adjusting for foreign exchange, to be in the high teens.

Due to the absence of scheduled goodwill amortization effective from January 1, 2005, this growth rate relates to the operating profit achieved in 2004 before goodwill amortization and before exceptional items.

In addition, excluding the income from our Clorox investment, we expect earnings per share to remain at the high level of the previous year. The basis here is the EPS figure before goodwill amortization and exceptional items.

Unfortunately, Ladies and Gentlemen, it appears that, since the last AGM, little change has taken place in either the political climate or indeed the political will.

Instead of de-bureaucratization and the elimination of complexity we are confronted by further bureaucratic hurdles – for example the Anti-discrimination Law, the European Chemicals Policy or the Protection of Investors Law – that make successful managing difficult.

We appeal to the politicians to address the solvable problems of this country in a proactive and committed manner in order to strengthen the confidence in the future and to make especially young people believe in our political system.

We would like to extend our thanks to you, our shareholders, for the confidence that you have placed in the company, and would like to assure you that we will continue to pursue our clearly charted course.

This information contains forward-looking statements which are based on the current estimates and assumptions made by the corporate management of Henkel KGaA. Statements with respect to the future are characterized by the use of words such as “expect”, “intend”, “plan”, “anticipate”, “believe”, “estimate”, and similar terms. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and results actually achieved by Henkel KGaA and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside Henkel’s control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. Henkel neither plans nor undertakes to update any forward-looking statements.