Our 124th Year 2000

focus:future.

Henkel

Financial Highlights (figures in million euro unless stated otherwise)

Henkel Group

	1999	2000
Sales	**11,361**	**12,779**
Adhesives	2,501	2,959
Cosmetics/Toiletries	1,814	2,029
Laundry & Home Care	2,574	2,835
Industrial and Institutional Hygiene/Surface Technologies	1,769	1,952
Chemical Products (Cognis)	2,605	2,921
Other [1]	98	83
Operating profit	**857**	**950**
Earnings before taxes on income	**692**	**816**
Net earnings	**404**	**505**
Cash flow	**1,247**	**1,159**
– as % of sales	**11.0**	**9.1**
Shareholders' equity [2]	**3,238**	**3,500**
Capital expenditure	**746**	**1,359**
Research and development costs	**279**	**320**
Number of employees (annual average)	**56,600**	**60,500**

1) secondary activities and general expenses

2) including minority interests

Henkel KGaA

	1999	2000
Dividend per ordinary share in euro	**0.87**	**1.06***
with tax credit	1.24	1.43
Dividend per preferred share in euro	**0.93**	**1.12***
with tax credit	1.32	1.52

* proposed

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Preface

Dear Shareholders,

The year 2000 has been a year of tradition and change for our Company. There has been a change on the management board level. Completing eight years of outstanding service as President and CEO, Hans-Dietrich Winkhaus passed the baton to his successor Ulrich Lehner and was appointed to the Shareholders' Committee.

In 2000, we succeeded in continuing one tradition of which we are particularly proud: once again sales and earnings surpassed the levels of the previous year. Net earnings grew by 25 percent to 505 million euro and sales increased by 12 percent to 12.8 billion euro. These results are evidence of the value-oriented strategy and future viability of our Company.

What were our achievements and key milestones in the year 2000?

We succeeded in further expanding our leading market positions. Key changes occurred in the various Business Sectors:

- The decision to carve out the Chemical Products business and establish Cognis as an independent company has proven to be the right strategic move. In view of the rapid changes in the competitive environment of our chemicals business, we no longer consider retaining majority ownership as imperative. We are now reviewing all options including a complete sale of Cognis. Our objective is to find an optimum solution for Henkel, for Cognis, and for the employees of Cognis.
- The agreed merger of Henkel-Ecolab into Ecolab Inc., to be implemented in 2002, will create a truly global company capable of meeting the requirements of global customers throughout the world.
- The acquisition of the Multicore Group in Great Britain and of the specialty polymers business of Dexter Corp. in the USA have been key strategic steps for our Adhesives business. These acquisitions expand our position as supplier to the microelectronics industry, an important market of the future, and to the aerospace industry.
- In our branded consumer products businesses, we have strengthened our regional presence in cosmetics through the acquisition of Yamahatsu in Japan, and in detergents through acquisitions in Mexico, Latin America's second largest detergents market.

What are we doing to continue our successful course in the future?

We invest in those areas which build the base for our future: in research and development and in our employees. Thanks to our R&D efforts, our products have always been state-of-the-art in terms of science and technology assuring highest quality levels. In order to secure

Albrecht Woeste

Chairman of the Supervisory Board and of the Shareholders' Committee

Ulrich Lehner

President and Chief Executive Officer

early access to key technologies of the future, we have entered into new forms of cooperation with independent research institutes and start-up companies.

The preeminent basis of our success are the over 60,000 employees in our Company worldwide. By doing their specific job, each and every employee contributes to what Henkel is today: a successful global specialist in consumer products and systems businesses. Therefore, we would like to take this opportunity and express our appreciation to all our employees.

In order to harness and better utilize the knowledge and experience of our employees in the future, we are implementing modern knowledge management systems throughout the Company.

As a global company, Henkel expects from its employees commitment, flexibility and global awareness. Demanding high performance, however, is just one side of the coin while supporting and promoting performance is the other. Our human resources development and remuneration systems assure that individual performance is recognized and rewarded. Results-based compensation systems and a stock option program create additional incentives. Personnel programs for continued education and development rank high on our priority list. Henkel training programs are important components of our value system: for us learning is a lifelong process.

What are our expectations for the future?

2001 will be a very special year in the history of Henkel. We celebrate our Company anniversary with the theme “125 years. focus:future.” We are looking back on the development of a small detergent firm into a global enterprise with leading market positions. But above all we want to look ahead towards the future development of our Company. We are on the right course: We expect to continue the growth path in sales and earnings.

We thank all of you – our shareholders, our employees, and our customers – for your continued trust and support. Let's build our future together.

Albrecht Woeste

Ulrich Lehner

Management Board

Henkel after 125 years. Keeping young in a changing world. With a clear view of the expectations of our markets and the requirements of our customers and consumers. In all our businesses – Detergents, Cosmetics, Adhesives, Surface Technologies, Industrial and Institutional Hygiene, and Chemical Products (Cognis) – we count among the leading suppliers both in Europe and worldwide. Innovation and competence in the provision of products and services plus professionalism in our market approach – these are the foundations on which our success has been built. We also set ourselves high standards in environmental protection. Our most important goal remains achieving a sustained increase in our shareholder value.

from left to right:

Guido De Keersmaecker (Adhesives),

Dr. Klaus Morwind (Laundry & Home Care),

Dr. Ulrich Lehner (President and CEO),

Dr. Roland Schulz (Industrial and Institutional Hygiene/Surface Technologies/Human Resources),

Prof. Dr. Uwe Specht (Cosmetics/Toiletries),

Dr. Jochen Krautter (CFO).

:managing


POLY
BRILLANCE
INTENSIV-COLOR-CREME
Fa
WELLNESS
SYSTEM
Fa
SHOWER GEL
Pattex
MONTAGE
1,5L
Neu
GEL
Persil
MEGAPERLS
Novità
Perlana
DIADERMINE
LOCTITE
SUPER GLUE
Probierangebot +25%

Management Report *Our 124th Year*

The year 2000 was an outstanding year for Henkel. Net earnings were up 25 percent, hitting a new record of 505 million euro. Sales were increased by 12 percent to 12.8 billion euro. Every business and region contributed to the growth in sales.

for VALUE.

Consolidated Group sales rose by 12 percent in the year 2000 to 12.8 billion euro. Sales in established businesses rose 5 percent (organic growth, after eliminating exchange rate factors). Acquisitions net of divestments produced sales growth of 2 percentage points. Favorable exchange rate movements contributed 5 percentage points to the increase in sales.

We posted an 11 percent increase in operating profit (EBIT) to 950 million euro. The return on investment – the ratio of EBIT to net operating assets – was 0.3 percentage points up on the previous year at 13.5 percent, despite the fact that the increase in assets as a result of major acquisitions in the year under review (Multicore, Yamahatsu, and the specialty polymers business of Dexter) was not yet matched by corresponding growth in earnings.

Sales performance by region

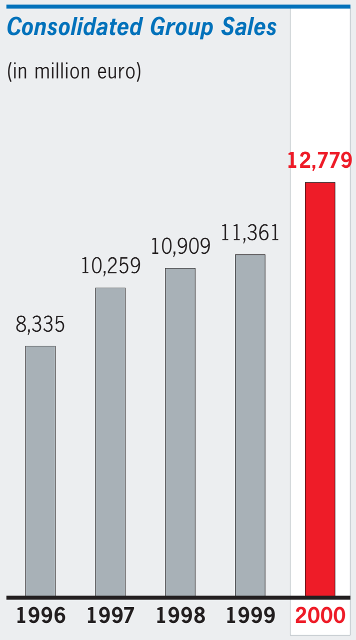
In **Europe** we increased total sales by 7 percent. The growth rate at our German companies was 5 percent while in other European countries it was 8 percent.

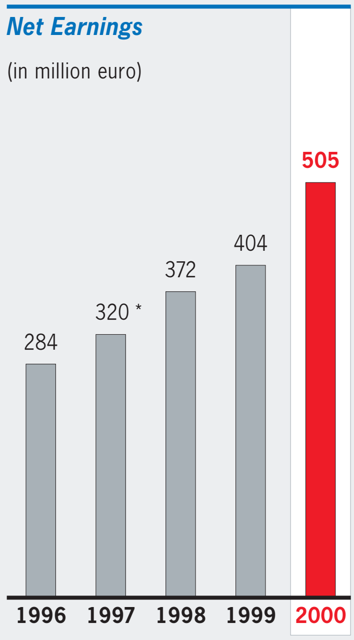
The economies of West European countries were in good shape. The countries of Central and Eastern Europe also succeeded in strengthening their economies. The favorable economic climate particularly benefited the chemical products business, now legally independent under the Cognis name. Sales of oleochemicals and of care chemicals and organic specialties recorded double-digit percentage growth.

Sales of adhesives also performed extremely well. Growth in established businesses came primarily from industrial adhesives and sealants and engineering adhesives (Loctite). Consumer and craftsmen adhesives also made good progress. Businesses associated with and dependent on the construction industry in Germany, however, suffered from the continued low level of activity in the building sector.

Sales growth in the Industrial and Institutional Hygiene/Surface Technologies business sector was in line with the general trend in Europe, both divisions recording good sales.

Our cosmetics and toiletries businesses also made good progress, our hair salon business again recording particularly strong growth. Laundry & Home Care products likewise recorded increased sales and further strengthened their market positions, helped above all by strong growth rates in sales of heavy-duty and special detergents.





* 576 million euro including gain from sale of GFC shareholding (Degussa)

The long-lasting economic upswing in **North America** continued at first without a break, but in the second half of the year showed increasing signs of slowing down. In this region we recorded sales growth of 17 percent overall, thanks partly to the US dollar continuing to strengthen against the euro. The best performance in terms of sales growth came from adhesives, where additional revenues contributed by acquisitions – especially the specialty polymers business of the Dexter Corporation taken over in August – were roughly balanced by revenues given up with the sale of the automotive aftermarket business in 1999.

Chemical products and surface technologies made very good progress. The Cosmetics business sector recorded good sales of hair cosmetics; but the response of consumers to the market launch of Fa was very subdued. The performance of our joint venture with The Dial Corporation in the detergents business was also way below expectations. Action has been taken to counter the negative earnings contributions made by these two businesses by restructuring their activities and strengthening their balance sheets.

Economic activity in **Latin America** continued to improve, although the pace of growth in Mexico was down from its previously very high level. Our sales in this region went up by 29 percent. Revenues were substantially increased in all established business segments. We now also have a detergent operation in Mexico – the second largest detergents market in Latin America – since acquiring the detergents manufacturer Salgado in the year under review.

Our sales in **Africa** recorded an increase of 53 percent. This was partly due to the inclusion of Henkel ENAD Algérie, our new joint venture in Algeria in the detergents sector. And our Egyptian subsidiary made a particularly good contribution to the growth.

In the **Asia/Australia** region our sales were up by 37 percent. In this region we benefited from the strong economic growth of the emerging countries in Asia, most of which were able to recapture the momentum they had had before being hit by the economic and financial crisis. All our business sectors recorded double-digit percentage growth – part of which was due to higher exchange rates. In Japan, however, where the recovery in activity was only tentative, we were able to increase our sales in established businesses by only 3 percent after stripping out exchange rate factors. We had a good sales performance in China, the only exception being the cosmetics business which was being restructured.

Henkel Group: Year-on-year sales growth by business sector in 2000

Business sector	Established business	Acquisitions/ Divestments	Effect of exchange rate fluctuations	Total
Adhesives	+ 5 %	+ 6 %	+ 7 %	+ 18 %
Cosmetics/Toiletries	+ 6 %	+ 3 %	+ 3 %	+ 12 %
Laundry & Home Care	+ 6 %	+ 2 %	+ 2 %	+ 10 %
Industrial and Institutional Hygiene/Surface Technologies	+ 5 %	–	+ 5 %	+ 10 %
Chemical Products (Cognis)	+ 6 %	– 2 %	+ 8 %	+ 12 %
Henkel Group	+ 5 %	+ 2 %	+ 5 %	+ 12 %

Earnings at new record level

The 11 percent increase in operating profit (EBIT) to 950 million euro is due to the strong growth in sales while costs, as a percentage of sales, remained largely static compared with the previous year. Raw material costs benefited from the buoyant supply of renewable oils and fats worldwide which largely compensated for the price rise in petrochemical raw materials. Selling, marketing, research and administrative expenses moved for the most part in line with sales. Costs did increase, for example, as a result of expanding into new markets by means of acquisitions and company formations, and the growing proportion of our consultancy-based systems business. Other operating income rose more strongly; the largest single item was the profit of 27 million euro from the sale of our plant care business (Substral). Other operating charges were much the same as in the previous year. Restructuring costs were down, with the focus mainly on improving the structures of the Laundry & Home Care and Adhesives business sectors.

The loss on financial items showed an improvement of 31 million euro to 134 million euro owing to an increase in income from associated companies. The net interest expense was higher than in 1999, due mainly to an increase in borrowings.

The effective tax rate – the ratio of taxes on income to earnings before tax – went down by 3.5 percentage points to 38.1 percent. The main factors behind this were improved utilization of losses carried forward by foreign subsidiaries and the reduction in the domestic tax rate from 45 to 40 percent reflected in the calculation of deferred taxes.

Net earnings rose 25 percent to a new record of 505 million euro. 2000 was the seventh year in a row to show an increase in net earnings. Taking out the effect of the special charge for Clorox in 1999, the 15 percent increase in earnings was still well into double figures.

Proposed distribution of profit

The dividend distribution is based on the financial statements of Henkel KGaA, which are reproduced in summarized form on page 12 of this Annual Report.

Our dividend policy is linked to the trend in earnings of the Henkel Group. Our financial strategy includes the commitment to pay a net dividend equal to at least 30 percent of the Henkel Group's earnings for the year (after minority interests).

Henkel KGaA: Dividends in euro

	1996	1997	1998	1999	**2000**
per ordinary share	0.61	0.69	0.79	0.87	1.06*
with tax credit	0.80	0.98	1.13	1.24	1.43
per preferred share	0.66	0.74	0.84	0.93	1.12*
with tax credit	0.87	1.06	1.20	1.32	1.52

* proposed

In view of the good performance last year we are recommending to the Annual General Meeting that a dividend of 1.06 euro per share be paid on the ordinary shares and 1.12 euro per share on the preferred shares. For shareholders fully subject to taxation in Germany who are entitled to the tax credit, the gross distribution – cash dividend plus tax credit – will total 1.43 euro on each ordinary share and 1.52 euro on each preferred share, making a payout equal to 33.5 percent of the net earnings of the Henkel Group for the year after minority interests.

Financial position

Cash flow amounting to 1,159 million euro was 7 percent down on the previous year. This was mainly due to additional payments of income taxes in the form of back-payments of tax following the conclusion of an external tax audit of Henkel KGaA. Adequate provision had already been made for this in previous years.

The excellent sales figures meant that there was a substantial increase in the funds required to finance inventories and receivables. The net cash inflow from operating activities went down by 518 million euro to 707 million euro. The net cash outflow from investing activities, on the other hand, went up by 767 million euro to 1,337 million euro. The latter was largely due to the greatly increased volume of acquisitions compared with the previous year.

Balance sheet structure

Total assets rose by 15 percent in the year 2000. This was a more rapid increase than the growth in sales mainly because of the first-time consolidation of businesses acquired in the year under review.

Shareholders' equity (including minority interests) increased by 8 percent on the back of the healthy profit for the year and helped by favorable exchange rate factors. Debt capital increased by 19 percent. Provisions as a whole – including those for deferred tax liabilities – accounted for around 30 percent of the balance sheet total, the same proportion as at the end of the previous year.

The increased funding requirements for acquisitions and operating activities meant that borrowings increased by 1,048 million euro to 2,963 million euro. The ratio of debt to cash flow amounted to 2.56 in 2000 (1999: 1.54). The ratio of overall earnings before tax plus net interest expense to the net interest expense (the interest coverage ratio) went up from 3.65 to 3.71.

Net earnings of Henkel KGaA

Henkel KGaA, the parent company of the Henkel Group, increased its gross profit by 4 percent. Increased selling and marketing expenses and research and development costs were the main reason for a reduction in operating profit. The net result from financial items was helped by an increase in net income from associated companies but was down on the previous year following the reorganization of foreign participations in 1999 and the consequently high level of tax-free book profits. Net earnings came out at 157 million euro.

Henkel Group: Balance sheet structure

	Dec. 31,1999 EUR mill.	Dec. 31, 2000 EUR mill.
Total assets	9,856	11,382
(figures below as % of total equity and liabilities)		
Fixed assets	55.8	55.3
Inventories	15.3	15.0
Receivables and miscellaneous assets *	27.4	28.3
Liquid funds/Marketable securities	1.5	1.4
Equity incl. minority interests	32.9	30.8
Long-term borrowings	25.9	23.4
Short-term borrowings	41.2	45.8

* incl. deferred tax assets

Major acquisitions, joint ventures and divestments

In Adhesives, part of our strategic objectives is to complement our product portfolio through the addition of products suitable for applications in the future market of microelectronics. Consequently, at the beginning of the year under review, we acquired the Multicore division from Kelsey plc, Hemel Hempstead, Great Britain. Multicore is a leading world supplier of soldering pastes for the assembly of mobile telephones and other telecommunication terminals. The purchase price was around 73 million euro.

The acquisition of the specialty polymers business of Dexter Corp., Windsor Locks, USA, in August of last year, is intended to take us further forward in the same strategic direction. The business encompasses products for the assembly of components on circuit boards for electronic equipment, plus adhesives for various other high-spec industrial applications, including those encountered in the aerospace industry. Our established Henkel-Loctite business has been permanently strengthened by this acquisition and the position of our engineering adhesives in market segments offering high growth rate potential has been further extended. The purchase price amounted to 434 million euro.

The inexorable progress of miniaturization in the electronics industry increasingly requires ever more specialized solutions for the dissipation of the heat produced by the components so as to guarantee their reliable function. With the acquisition of Power Devices Inc., Laguna Hills, USA, a supplier of specialty chemical products for improved heat dissipation in electronic equipment such as mobile phones and computers, we have closed one of the last gaps in our portfolio for this sector. This brings us ever closer to the goal of turning Henkel into a world class single-source supplier for assembly materials in the electronics sector. The purchase price for Power Devices was 17 million euro.

Having acquired Yamahatsu Sangyo K.K., Osaka, Japan, one of the leading Japanese suppliers of hair colorants for the retail trade and the salon business, we have gained entry for our Cosmetics/Toiletries business sector in the Japanese colorants market. We have, with this step, also simultaneously created a basis for more extensive cooperation in this market segment with the Lion Corp., Tokyo, Japan, to which we have in the meantime transferred a minority holding in Yamahatsu. The purchase price after

*Financial Statements of Henkel KGaA (summarized) **

Statement of Income	1999 EUR mill.	2000 EUR mill.
Sales	2,360	2,425
Cost of sales	– 1,530	– 1,558
Gross profit	830	867
Selling, research and administrative expenses	– 823	– 909
Other income (net of other expenses)	130	141
Operating profit	137	99
Gains on disposal of financial assets	911**	100
Other financial items	58	– 13
Financial items	969	87
Change in special accounts with reserve element	6	31
Earnings before tax	1,112	217
Taxes on income	– 78	– 60
Net earnings	1,034	157
Allocation to revenue reserves	– 517	–
Unappropriated profit	517	157

Balance Sheet at Dec. 31,	1999 EUR mill.	2000 EUR mill.
Property, plant and equipment and intangible assets	350	331
Financial assets	3,895	4,413
Fixed assets	4,245	4,744
Inventories	157	161
Receivables and miscellaneous assets	1,780	1,239
Treasury stock	–	63
Liquid funds	4	–
Current assets	1,941	1,463
Total assets	6,186	6,207
Shareholders' equity	2,763	2,790
Special items	261	231
Provisions	1,391	1,287
Liabilities	1,771	1,899
Total equity and liabilities	6,186	6,207

* The full financial statements of Henkel KGaA with the auditors' unqualified opinion are published in the Bundesanzeiger (Federal Gazette) and filed with the Commercial Register in Düsseldorf. Copies can be obtained from Henkel KGaA on request.

** Mainly book profits on transfers of shareholdings within the Group.

deduction of the consideration received for the minority holding amounted to 7 million euro. In Canada, we acquired the former Schwarzkopf distributor for the salon business. By adopting a direct sales approach, we will be able to better exploit the potential of the Canadian market.

In the Laundry & Home Care business sector, too, we continue to pursue our strategic objective of entering markets offering above-average growth potential. An important step in this direction was the forming of a joint venture company in Algeria together with the ENAD Group, Algiers. Our equity interest in the new company, Henkel ENAD Algérie (HEA) in Sour El Ghozlane, comes to 60 percent. The purchase price was 57 million euro. With this joint venture, we have further expanded our presence in the markets of the Mediterranean region. In Israel, we acquired from Shemen Industries Ltd. the remaining 50 percent of the shares in Henkel Soad Ltd. at a purchase price of 30 million euro. In Mexico, together with Dial we had acquired 80 percent of the shares in Fábrica de Jabón Mariano Salgado in Toluca in spring 2000. At year-end, Dial sold its participation to Henkel. Since the year under review, we have thus also been represented in the second largest Latin American detergent market. The purchase price for Salgado totaled around 41 million euro.

At the beginning of the year 2001, we took over the Mexican heavy-duty detergents business of Colgate-Palmolive, so enabling us to further strengthen our position in the local detergent market. The purchased portfolio includes all heavy-duty detergents and soaps of the brand Viva in Mexico, the associated know-how and selected production facilities. The business has a sales volume of around 83 million euro. The purchase price amounted to 97 million euro.

We also extended our commitment in Russia with the takeover of the detergents manufacturer OAO Pemos in Perm (Central Russia). The acquisition is conducted in two stages: In December 2000, Henkel purchased 51 percent of the shares. A further 33.5 percent is then to be acquired over the next twelve months. Aside from modern facilities for the manufacture of powder products, Pemos also has a plant for liquid products, so providing Henkel with access to this market segment, too. With this acquisition Henkel has become the largest detergents manufacturer in Russia. The purchase price for the 51 percent of the shares was 12 million euro. With the acquisition of the hand dishwashing detergent brand Nelsen in Italy we were able to double our market share and to markedly shorten the gap to the market leader in this segment. The purchase price was 25 million euro.

The business performance of our joint venture with The Dial Corp. in the detergents sector in the United States fell short of our expectations. The meanwhile revised joint venture agreement provides for Henkel and Dial continuing to operate, on an equal-share basis, a limited joint venture in the U.S. in which the Custom Cleaner business (dry cleaning in the tumble drier) is to continue.

In the Surface Technologies sector, the establishment of a joint venture with OAO Plastik, Syzran, Russia, has provided a platform for participation in the expected upswing in Russian industrial activity, and particularly the automotive industry. The main business of the company involves the manufacture and sale of plastisols for weld seals and underfloor sealing, and of polyurethane adhesives that are used, inter alia, for the adhesive bonding of automotive glazing.

In February 2001, Henkel reached an agreement with Atofina, an affiliated company of Total Fina Elf, Paris, France, regarding the takeover of Atofina's metal treatment activities. The business encompasses products for metal forming and surface treatment, and constitutes a beneficial complement to our own product portfolio in this segment. The main sales areas are North America and Europe. Sales achieved last year by Atofina in this business amounted to approx. 100 million US dollars. The purchase price is 64 million US dollars.

In spring 2000, Cognis took over from La Seda de Barcelona, Spain, the company Hispano Química S.A., a specialty chemicals producer with annual sales last year of 30 million euro. Its main customer sectors are the cosmetics, textiles, paints & coatings, and leather industries. The purchase price amounted to 30 million euro.

CPGmarket.com, a business-to-business Internet joint venture, began operations halfway through 2000. This Internet marketplace operated jointly with the companies Danone, Nestlé, SAP and Accenture (formerly Andersen Consulting) is primarily concerned with the purchase of raw materials, packaging materials, capital goods and services. The establishment of a second electronic marketplace (cc-markets.com) for technical products and services for the consumer goods industry was completed to the extent that it was also able to go live before the end of 2000. Our partners in this marketplace are the companies BASF, Degussa and SAP.

In order to support and complement our own research activities, we participated to the tune of 57 percent in a joint venture with the Technical University of Darmstadt; we likewise acquired a minority share in the start-up company Vermicon AG, Munich, and also in two technology funds.

In line with our policy of focusing on our core activities, we sold our plant care business and the brands Substral and Blomin. The gain resulting from this sale amounted to 27 million euro.

Capital expenditures

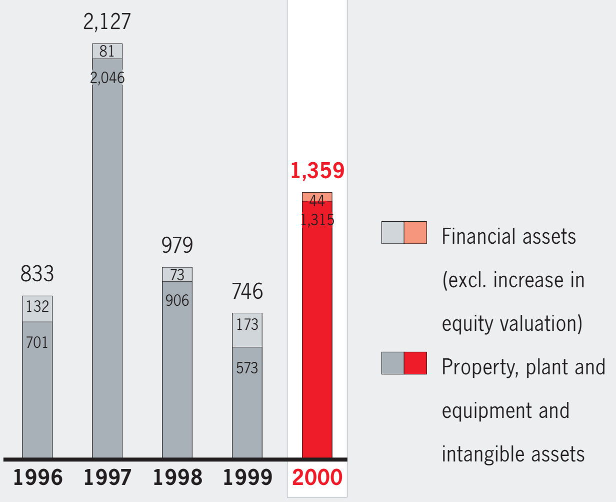
Capital expenditures in the year 2000 amounted to 1,359 million euro. Of this figure, 693 million euro were invested in intangible fixed assets, 622 million euro in property, plant and equipment, and 44 million euro in financial assets. The amount expended on our established businesses was 609 million euro (previous year: 476 million euro).

The following major projects were completed in the year under review:

- Expansion of production capacities in Hanover, Germany, for Pritt correction and adhesive rollers
- Construction of a finished product warehouse in Avon, USA, for consumer adhesives
- Construction of a factory for the manufacture of industrial adhesives in Cairo, Egypt

Capital expenditures on property, plant and equipment and financial assets Henkel Group

(in million euro)



Expenditure on research and development

Our expenditure on research and development increased in the year 2000 by 15 percent to 320 million euro. The proportion to sales that this investment represents is 2.5 percent. We spent 138 million euro on application-related advice and consultancy for the customer, a figure that constitutes an increase of 17 percent over the previous year. As an average for the year, around 4,000 employees were engaged in research, development and application engineering worldwide.

The main areas of our research and development activities for 2000 are described in the "Research and Technology" section on page 20 of this Annual Report.

- Construction of a production plant for the manufacture of adhesives for medical applications in Dublin, Ireland
- Construction of a production facility for the manufacture of adhesives for microelectronics in Tallaght, Ireland
- Expansion of production capacity for enzymes for detergents in Kundl, Austria
- Further expansion of production capacity for detergent tabs in Düsseldorf-Holthausen, Germany, and for machine dishwashing tabs in Foetz, Luxembourg
- Construction of a new development facility and customer advisory center for surface technologies in Heidelberg, Germany
- Expansion of a plant for the manufacture of oleochemical esters in Illertissen, Germany
- Expansion of facilities in Hutt Lagoon, Australia, for the manufacture of natural beta-carotene derived from algae.

These investments have been actioned in response to the introduction of new products, the ongoing global alignment of our business structures, and rising demands on production.

Safety, health and the environment

Attaining continuous improvement in the fields of safety, environmental protection and health enhancement constitutes an integral component of our corporate policy.

Every year since 1992, we have issued a separate report covering this subject area. This is published at the same time as the Annual Report and provides information on the progress made and innovations introduced in the areas mentioned in relation to our products and production sites.

Our Group-wide standards in the fields of safety, health and the environment, and the detailed guidelines allocated to these, are fully in line with the requirements of the worldwide Responsible Care® program of the chemical industry. We are also committed to the principles of long-term sustainability in development as laid down in the "Business Charter for Sustainable Development" of the International Chamber of Commerce.

Our target is to achieve full implementation of our standards in all our production sites by the end of 2001. We are currently in the process of performing systematic audits in order to achieve this goal. By the end of 2000, we had essentially audited all the main production sites at least once. The few exceptions relate to newly acquired sites and some production facilities in which major conversion work is or has been in progress. The audit program is to continue on a comprehensive scale.

In accordance with the requirements of the market, the business sectors continue to avail themselves of the opportunity to submit to external certification based on internationally recognized environmental standards. To date, 41 sites have been registered in accordance with the worldwide environmental management standard ISO 14001 and/or the Eco Management and Audit Scheme of the European Union.

The Bundesverband der Deutschen Industrie (Federal Association of German Industry) awarded its Environmental Protection Prize 1999/2000 to Henkel. In the category "Environmentally Oriented Corporate Management", Henkel took first place.

In the "European Competition for a Better Environment" organized by the EU Commission, Henkel received a commendation in the category "Management Award for Sustainable Development".

Procurement

Expenditure on materials at the Henkel Group in the year under review rose by 12 percent to 5.2 billion euro. Our worldwide procurement network proved particularly successful in combating increasing prices for petrochemical-based raw materials and packaging materials. Thanks to successful strategic vendor management and a favorable procurement situation in relation to natural-source oils and fats, we were able to limit the impact of price increases on material costs to a moderate level overall.

Through our participation in two Internet marketplaces – CPGmarket and cc-markets – we have created an important basis for the effective utilization of e-commerce technologies in our procurement processes.

We intend to further strengthen our activities in the field of e-business. On the procurement side, we expect further positive developments to ensue with price increases remaining moderate.

Added value as a measure of performance

We evaluate the employment of new funds for capital expenditure and acquisition projects and the progress of our business segments by reference to the cost of capital, based on the yield requirements of capital markets. The minimum return which we look for from projects which require capital investment and from our established businesses is 9 percent after tax. The pre-tax yardstick is 13.5 percent.

We use the cost of capital (after tax) as a performance measure within the framework of our strategic portfolio management procedures to analyze whether the medium-term projections of the business sectors show sufficient potential to create value in line with our overall strategy. The net cash flow figures over the period of the projections are used as the basis for this.

To help us to evaluate results from an added value point of view we have adopted (starting with fiscal 2001) "Economic Value Added" (EVA)* as an additional ratio in our system of monthly management reporting throughout the Group and in our incentive schemes. EVA® is a measure which indicates how much additional value has been created over and above the cost of capital employed.

In order to increase the transparency of our quarterly and annual reports to shareholders we have expanded the table showing segment information by business sectors by adding the following ratios: EBIT before amortization of goodwill (EBITA), EBIT before depreciation of tangible fixed assets and amortization of goodwill (EBITDA), and return on capital employed (ROCE). In addition we have included in the Notes (see page 75) a reconciliation from the net operating assets of the Henkel Group to the capital employed and to the balance sheet figures.

Risk report

Risk management has always been an integral part of Henkel's business management techniques, ever since the Company was founded 125 years ago. When the German Law on Corporate Governance and Transparency ("KonTraG") came into force in May 1998 we were there-

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fore able to include our risk management systems in the audit of our accounting records in that same year and apply the new regulations immediately.

Our risk management systems are firmly enshrined in our corporate strategy and structure. They include early warning systems which are strategically based and designed for the long term; reporting systems at individual companies and at Group level; and a structured system of controls. The internal audit department has an independent supervisory function and carries out checks on the cost-effectiveness and proper implementation of business procedures. Other activities such as insurance management, human resource control and environmental management contribute to the risk management function in their particular spheres.

The risk management systems of the Henkel Group are all documented in a special manual which is kept constantly up-to-date and serves as a basis for a systems audit by our independent auditors.

In the year under review we have again drawn up an inventory of the Group's exposure to risk, evaluating each risk with regard to the possible amount of damage and probability of such damage being incurred, and the security systems in place. The findings have been recorded in a risk report. The risk inventory did not reveal the existence of any risks which could endanger the future of the Group.

Our functional and operational risks of a general nature are controlled by means of organizational measures and a forward-looking business strategy.

Interest rate risks, currency risks and liquidity risks are hedged by an active Treasury Management function based on guidelines in force throughout the Group. Derivative financial instruments are used solely for hedging purposes.

Outlook

We are looking forward to another good performance in 2001. Although current forecasts indicate a slackening in the pace of economic growth worldwide, the growth rates in our core European market should still be solid enough. The US economy is likely to grow much less strongly than in previous years. We expect the positive economic conditions in Latin America to be maintained, and in Southeast Asia we think the economic climate will remain favorable despite a modest slowdown in growth.

Against this background our projections indicate a significant increase in consolidated Group sales. In every area of business we intend to grow more rapidly than the market as a whole. We expect our growth to be fueled by the introduction of new products and by product improvements in many areas, as well as by taking our own successful products and product ideas acquired from others into additional national markets.

Earnings could be at serious risk from relatively large increases in raw material prices, a significant cyclical downturn in Europe (which cannot be ruled out), and from unexpected economic and currency crises in important emerging countries.

In foreign exchange markets the exchange rate of the euro to the US dollar is of vital importance to Henkel. Our projections for 2001 are based on the average rate of 0.93 US dollar to the euro through the year 2000. If the value of the dollar were to fall more sharply in 2001, all the currencies tied to the dollar – i.e. those of the Latin American and many Asian countries – would also be affected.

Our main concern for 2001 – the 125th year in the history of Henkel – is the future viability of the Henkel Group. This will also be reflected in the slogan we have chosen for 2001: “125 years. focus:future.” Our efforts will be concentrated on extending and safeguarding growth, improving returns further, and increasing the amount of cash flow available for financing growth.

The process of turning our chemicals business into a legally independent company under the Cognis name is complete. Our original intention when the decision to carve out the business was made was to retain a majority interest in Cognis. After analyzing a number of possible strategic partnerships we have recognized that none of the alternatives investigated would enable us to achieve our aim of laying the foundation for further growth at Cognis and at the same time ensuring reasonable continuity of progress for our core activities. For these reasons we have decided not to insist on retaining a majority holding in Cognis and are now reviewing other possibilities, including the sale of a majority interest or of the entire share capital in Cognis. In any decision regarding Cognis we will take into account not just the financial aspects but also whether the partner will ensure the best possible ongoing development of Cognis and consequently an attractive future for its employees.

We are planning to further strengthen our existing cooperation arrangements with Ecolab Inc. in the industrial and institutional hygiene sector by merging our 50 percent participation in the joint venture Henkel-Ecolab with Ecolab Inc. The transaction is to be completed on January 2, 2002. The joint venture agreement between Ecolab Inc. and Henkel KGaA will be amended. Henkel will have an option to increase its interest in Ecolab Inc. to 35 percent and claim an additional seat on the Board of Directors. This will create a genuinely global business, which could not have been fully achieved under the terms of the existing joint venture agreement. In this way Henkel will participate in the long-term growth of Ecolab Inc. The consideration for the transaction – which still has to be approved by various authorities – is to be paid at Henkel's choice either in cash or in Ecolab shares.

We have again set ourselves ambitious targets for 2001. We expect our operating activities to produce another substantial improvement in earnings compared with the previous year, continuing the rising trend in earnings which goes back many years. Non-recurring charges of an exceptional nature will be incurred in 2001 in connection with further restructuring costs at Clorox already announced. We are confident that these charges will be counterbalanced at least in part by non-recurring income.

Financial targets

In our 1996 Annual Report we set ourselves the targets of achieving, by the year 2000, a return on equity of 15 percent, a net return on sales of 4.5 percent, and annual growth in earnings per share at a double-digit percentage rate. We have more than met the return on equity target this year with a figure of 15.6 percent. The return on sales, however, despite the considerable improvement to 4.0 percent achieved in the year under review, is still short of the target. By contrast we were well ahead of our target of annual double-digit percentage growth – i.e. a year-on-year increase of at least 10 percent – for earnings per share. Over the period 1996 – 2000 the average annual growth rates for the ordinary and preferred shares were 17.4 percent and 17.1 percent respectively.

We have now set ourselves the following financial targets for the period up to the year 2005. We are aiming for 8 percent average annual growth in sales revenue for the Henkel Group. We want to increase the return on sales based on operating profit before depreciation and amortization (EBITDA) from 12.7 percent in the year under review to 15 percent in 2005. And the target for the new ROCE ratio, which was 14.8 percent in the year under review, is 17 percent. For earnings per share we are continuing to set our sights on average annual double-digit percentage growth between now and 2005.

The new targets have been fixed on the basis of the existing Group structure. In the event of any material changes in the structure we will review the targets and adjust them as necessary.

Capital Markets / Investor Relations

The market value of Henkel's ordinary and preferred shares made good progress in 2000 over the year as a whole: the ordinary shares rose 9.7 percent and the preferred shares 8.1 percent. The German DAX equities index, by contrast, fell by 7.5 percent and the Dow Jones Stoxx by 3.8 percent.

A long-term oriented investor who had bought Henkel preferred shares for the equivalent of 10,000 euro when they were first issued in 1985 would have seen their value grow to 66,000 euro (excluding the effects of taxation) by the end of 2000. This represents an increase of 13.2 percent a year. The average annual return on the German DAX index over the same period was 11.9 percent.

The German Stock Exchange has decided that the rules governing the composition of the DAX index are to be changed from June 2002 onwards. The market capitalization criterion will then be calculated only on the basis of the shares in any particular category which are in free float. As things stand at the moment there is no danger of Henkel not being included in the DAX – which is the most important equities index in Germany – when the new rules come into force.

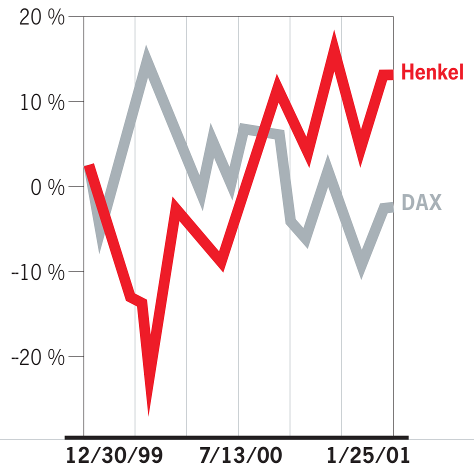
Financial analysts see a promising future for Henkel. 15 renowned brokerage houses, for example, are currently recommending Henkel as a buy.

Investor Relations

We have again intensified our dialogue with capital markets in the year 2000. We have briefed investors about the Company at a series of international conferences and held a large number of roadshows in Germany and abroad. We have also had numerous one-on-one meetings. Our corporate communications activities have been aimed particularly at convincing analysts and investors about the innovative strengths and growth prospects of the Group. The ongoing strategic development of the chemicals sector (Cognis) was another important topic for discussion.

Performance in 2000/2001:

Henkel preferred shares / DAX



Key data on Henkel shares in euro

	1996	1997	1998	1999	2000	
Earnings per share in accordance with IAS						
Ordinary shares	1.69	1.94	2.28	2.47	3.20	
Preferred shares	1.74	1.99	2.33	2.53	3.25	
Share price at year end						
Ordinary shares	37.68	51.13	67.75	55.50	60.00	
Preferred shares	38.76	57.52	74.09	64.90	69.25	
High for the year						
Ordinary shares	38.76	52.05	81.30	72.50	65.50	
Preferred shares	39.73	58.80	93.80	79.30	76.90	
Low for the year						
Ordinary shares	30.93	37.43	50.36	50.70	44.80	
Preferred shares	27.81	39.01	54.35	57.60	47.00	
Price/ earnings ratio						
Ordinary shares	22.30	26.36	29.71	22.47	18.75	
Preferred shares	22.28	28.90	31.80	25.65	21.31	
Dividend						
Ordinary shares	0.61	0.69	0.79	0.87	1.06	*
Preferred shares	0.66	0.74	0.84	0.93	1.12	*
Dividend yield**						
Ordinary shares	1.62 %	1.35 %	1.17 %	1.57 %	1.77 %	
Preferred shares	1.70 %	1.29 %	1.13 %	1.43 %	1.62 %	
Number of shares (in millions)	146.0	146.0	146.0	146.0	146.0	
Ordinary shares	86.6	86.6	86.6	86.6	86.6	
Preferred shares	59.4	59.4	59.4	59.4	59.4	***
Market capitalization (in billion euro)	5.57	7.82	10.28	8.67	9.24	****

* proposed

** based on share prices at year end

*** incl. 992,680 shares repurchased for stock incentive program in 2000

**** excl. shares repurchased

We will be staging another demanding program of presentations and roadshows in 2001.

As part of our investor relations activities we have carried out an analysis of the shareholder structure and of target groups. The results of this analysis will help us to target potential investors more effectively worldwide.

Ratings confirmed

The rating agencies Standard & Poor's and Moody's again evaluated the creditworthiness of the Henkel Group in the year 2000. In spite of the increase in borrowings for the purpose of acquisitions, the good ratings of previous years have again been confirmed.

These ratings enable the Henkel Group to secure financing on favorable conditions in international money and capital markets.

Standard & Poor's	Moody's
A1+ (short term)	P1 (short term)
AA– (long term)	A1 (long term)

Research/Technology

Key technologies to secure future market success.

The rapid changes taking place in the technological environment require new structures in the innovation process. We complement our core competencies through external know-how and with increasing emphasis on new forms of cooperation.

Our research strategy has three main aspects:

- Expansion of our core competencies to support product development with the objective of reducing the time to market of more innovations
- Development of future-oriented base technologies such as nanotechnology, biotechnology and systems technology for the long-term expansion of our existing product portfolio
- Dissemination of the innovative potential using new models of cooperation with universities and institutes, and also through investments in venture capital funds and direct participation in start-up companies.

New forms of cooperation

Among the new forms of cooperation, mention should be made of our participation in the young Munich company Vermicon AG that has developed an innovative technology for the fast and precise identification of microorganisms. This is expected to provide interesting points of departure in the development of innovative active ingredients for cosmetic products and detergents.

A further step in the area of research cooperation has been the advent of the company SusTech in Darmstadt, Germany, which we have jointly founded with the Technical University of Darmstadt and a group of six professors. The launch projects relate particularly to applications involving the nanotechnology of surfaces, and in consumer products.

The high innovation potential of Japanese science was a decisive factor influencing the decision to establish, together with the Kinki University, a joint research center in Japan. Here, too, the objective is to generate innovations that are useful for Henkel.

Phenion, a biotechnological research company in Frankfurt, Germany, which Henkel is planning to found together with the Johann-Wolfgang-Goethe University of Frankfurt/Main and a group of professors, is scheduled to begin business operations by the end of 2001.

Our total budget for similar new forms of cooperation in the next five years amounts to 150 million euro.

Innovation awards 2000

Once again this year, products that have been particularly innovative and/or enjoyed special market success have been singled out for special recognition. The 19th Fritz Henkel Award for Innovation was conferred on the following projects:

- PRITT Dry Correction Roller Range
- Automatic Dishwashing 2-in-1-Tabs
- Loctite 55 Thread Sealing Cord

Results from research

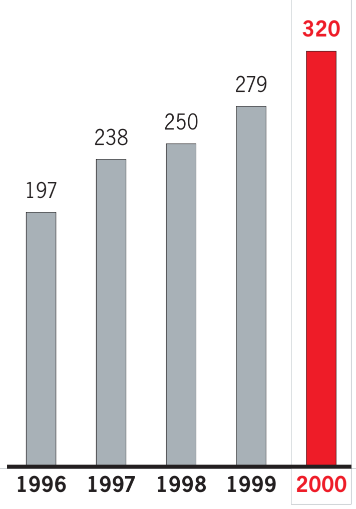
Henkel is also exploring new avenues in the development of innovative active ingredients. Organisms able to live under extreme conditions may prove to be the source of extremely promising, innovative substances. For example, molecular mechanisms that protect the organisms from UV radiation are now already being harnessed for Henkel products. A successful example is the development of an enzyme that is responsible in detergents for color regeneration.

Our research is also beginning to bear fruit in terms of the effective utilization of nanotechnology. Thanks to the special properties of minute nano particles, for example, it has become possible to improve the barrier effect of adhesives and coatings. With the aid of nanotechnology, it is also possible to smooth dental enamel.

In the field of cosmetics research, we have succeeded in developing a dermatological equivalent that is very similar to the human skin. This enables us to speed up the search for new active ingredients which, when applied at an early stage, can serve to retard environmentally induced skin aging processes.

Expenditure on Research and Development Henkel Group

(in million euro)



Employees

Acquiring highly qualified employees and encouraging them to develop is essential for our corporate success. This is one of the main focal points of our personnel policy. With competition for exceptional talent increasing, our internationality, competency and distinct corporate culture, coupled with the multiplicity of tasks and personal development possibilities that we offer, contribute to making us a highly attractive employer.

Using campus teams, we concentrate our recruitment activities on a select number of target universities and business schools. Our high-profile presence on the campuses, combined with selective participation in graduate exhibitions and certain other events enables us to present Henkel as a potential employer to a large number of likely candidates.

International personnel assignment policy

The allocation of international tasks to our employees constitutes an important component in the concept of our staff development program. It also underlines the special activity-related challenges facing our Company as an international employer. Transfer abroad is supplemented by many varied forms of international cooperation and team building.

Henkel Global Academy

We support the development of our managerial staff through our internationally aligned management training program known as the Henkel Global Academy.

This encompasses a wide-ranging curriculum of seminars and courses for managers, and aims not only to facilitate the transfer of best practice, management know-how and skills but also the formation of a common management consciousness within the Company.

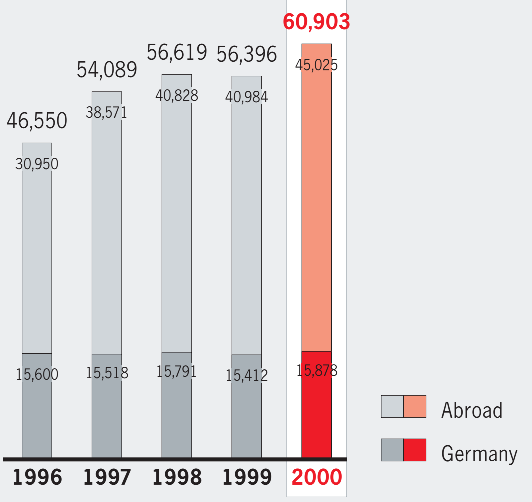
Compensation management

With the aim of further focusing the attentions of our managers on the development of our shareholder value, Henkel introduced a new stock incentive program in the year 2000. This involves a total of around 900 managers from around the world.

This program constitutes an important step in the further development of our compensation system and directly links the interests of our managers to those of our shareholders.

Employees at the Henkel Group

(at Dec. 31)



Indices

The payroll cost ratio, i.e. the ratio of personnel costs to sales for the Henkel Group remained with 20.4 percent unchanged compared with the previous year. Sales per employee increased by 5 percent to 211,300 euro.

The efficiency of our working and production processes is regularly improved by a constant influx of innovative ideas from our employees. During the year under review, 5,362 improvement suggestions were submitted in Düsseldorf-Holthausen, of which 54 percent were implemented. This led to savings of 3.0 million euro during the first year following implementation of the improvements concerned.

Training

We have further intensified our commitment to professional and vocational training. Henkel is providing increasing training opportunities in the new information technology and telecommunication professions. In the year 2000, 178 young people took part in a training program or apprenticeship at Henkel in Germany, of which 121 were employed at Henkel KGaA and 67 in the affiliated companies in Germany. Overall, the high level of the previous year was thus effectively maintained. By the end of 2000, the total number of apprentices in Germany amounted to 535 people.

Movements in personnel numbers

The number of employees in the Henkel Group rose in the year under review by 4,507 to 60,903 persons. The increase was essentially attributable to the integration of newly acquired companies. The personnel level in Germany rose slightly to 15,878. The proportion of total employees located outside Germany increased further to approx. 74 percent.

A word of thanks to our employees

Through the high level of performance and efficiency shown by our human resources, we succeeded last year in achieving considerable market success in a wide spectrum of activities. We would like to express our appreciation to all the employees of the Henkel Group for their efforts and commitment in the period under review. We are also grateful to the employee representative bodies for their constructive cooperation and trust.

Outlook

The focus of our personnel policy will, in future, be aligned more to supporting the international structures of the Henkel Group. Further steps in the process of harmonization and worldwide integration of our human resource management systems are to be implemented.

:power

Engineering adhesives for the markets of the future

Automotive engineers are rethinking their approach – and designing more plastics and composites into their components. The process of miniaturization in the mobile phone and computer industries would not have been possible without chip bonding and the advent of conductive adhesives. Aircraft manufacturers and the aerospace industry rely on high-performance adhesives. In medical technology, increasing use is being made of gentle care adhesives. And in all these highly promising and technologically challenging growth sectors, Henkel is the reference and cooperation partner of the leading companies involved.

Adhesives: Further growth worldwide. The Adhesives business sector has once again recorded a substantial increase in sales. Our position as world market leader has been not only consolidated but also further expanded. With carefully selected acquisitions, we have considerably strengthened our technological base and secured the future compatibility of our adhesives activities.

ADHESIVES.

Consumer and Craftsmen Adhesives

The organic growth undergone by our businesses exceeded our expectations. We made further advances worldwide in the process of changing over from local brands to our leading global brands. We have also committed significantly more resources to research and development.

The North American activities of Manco, Loctite and LePage, which were merged in 1999, performed very successfully during their first full business year. Similarly gratifying was the growth achieved in Asia, with a successfully accomplished turnaround in China. Latin America again made an important contribution to the development of the business sector.

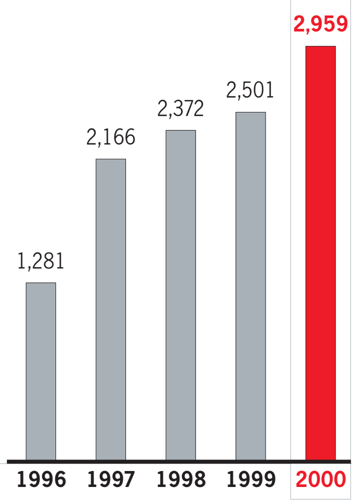
In the European core markets, performance of our regional activities varied. We achieved particularly high growth rates in Great Britain, while the German business was characterized by substantial market share gains in partially declining markets.

In the do-it-yourself product segment, the encouraging developments encountered in relation to our assembly adhesives (brand name: “no more nails”) continued and we were able to extend our market leadership. In the case of our wallpaper pastes, too, we succeeded in underpinning our position as world market leader through the introduction of a new line: With the launch of a wallpaper paste product in tablet form, we are able to offer wall-paperers worldwide an exceptionally user-friendly product concept.

The expansion of our activities in the paper, office products and stationery market segment was again characterized by the international launch of innovative roller products for correction and adhesive bonding applications in the year 2000.

Share of Group sales: **23%**

Sales in million euro:



Product groups:

Consumer and Craftsmen Adhesives: Wallpaper pastes; ceiling, wall covering and tile adhesives; home decoration products; sealants; polyurethane foam fillers; cyanoacrylates; contact adhesives; wood glues; PVC pipe adhesives; flooring adhesives; building chemicals; coatings; roofing products; glue sticks, glue rollers, correction rollers, adhesive tapes.

Industrial Adhesives and Sealants: Bookbinding adhesives; labeling and packaging adhesives; laminating adhesives; rubber-to-metal bonding agents; pressure-sensitive adhesives; wood adhesives; hygiene product adhesives; double glazing adhesives; cable insulating compounds and sealants; structural adhesives and sealants; shoe adhesives; cigarette adhesives.

Engineering Adhesives: Reactive adhesives; high-performance sealants; sealing systems; assembly adhesives.

Through the acquisition of the Manco business, we are able to offer a wide range of adhesive tapes under the “Duck” brand name.

Industrial Adhesives and Sealants

Noteworthy innovations in our business involving industrial adhesives and sealants included the successful introduction of water-expandable hotmelts for the rapidly growing telecoms industry, and solvent-free adhesives under the name “Window 2000” for the manufacture of window frames. Liofol products for flexible packaging continued to perform well, with the solvent-free variants achieving a significant market breakthrough. Our position was also strengthened in the graphic arts and paper processing industries.

We were able to significantly expand our position in the face of strong competition on the North American market. In Brazil, we brought on stream a high-performance facility for the manufacture of hotmelt pressure-sensitive adhesives for the hygiene products and beverage industries.

In Asia, the positive trend recorded during the previous year took a further upturn in the year 2000. Our activities in the Middle East were very successful.

Engineering Adhesives (Loctite)

We achieved the expected double-digit growth rate in our established engineering adhesives (Loctite) businesses. Further growth emanated from a series of acquisitions that serve to extend our position vis-a-vis the electronics industry, and particularly in the telecommunications segment: Multicore (soldering materials), Dexter (underfill adhesives, encapsulants), and Power Devices (thermoconductive adhesives). As Dexter, with its Hysol line, is also an approved supplier to the international aerospace industry, our product portfolio has now been ideally augmented through the addition of its high-performance epoxy adhesives for use in aircraft manufacturing.

A re-processable version of our underfill adhesives was launched onto the market. This means that chip assemblies and printed circuit boards can now be recycled even if the chip itself is defective.

Outlook

For 2001 we are planning the launch of a number of convincing innovations for all the major market segments served by our craftsmen and do-it-yourself adhesives.

In the case of our industrial and packaging adhesives, too, we intend to make further advances into the market with new products. On the engineering adhesives side, we plan to fully utilize the synergies available to us from the acquisition of Multicore, Dexter and Power Devices. We are creating a global yet customer-oriented electronics business. We are moving toward the establishment of an engineering center in Japan, while in Detroit, USA, we are further expanding our existing engineering center. Generally, we intend to increase our overall investment in research, development and technology.

Precision work in the clean room of the Loctite engineering center in Garching (photo below). Loctite UV adhesives combined with Henkel hotmelts are helping DVD technology to conquer the market.

Automotive power train adhesives

The Formula One speed machines from the McLaren-Mercedes stall roar around the circuit carrying 82 adhesive applications from Loctite: In the engine and gearbox, on the suspension and in the hydraulics system. And products capable of withstanding such extreme load conditions are also, of course, awakening the interest of the development departments for standard road-going models. Liquid seals on gearcases or jointing techniques for new materials such as magnesium are making significant inroads on the production lines of the vehicle manufacturers. Loctite develops and integrates the application systems for mass production and, through automation and enhanced cost-efficiency, offers major advantages in the value-added process of the automotive industry.

Above the clouds

Astronauts traveling in a space shuttle orbit at an average speed of 3,000 miles per hour. And as they do so, they put their trust in the epoxy adhesive of the Henkel subsidiary Resin Technology Group (RTG) with which the buffering phenol rings are fixed between the propulsion nozzles and the fuselage. RTG was selected as the preferred supplier from a shortlist of 50 potential adhesive manufacturers. With Dexter, Henkel has acquired access to the aerospace industry. Renowned manufacturers of airline aircraft and business jets in the USA and Canada construct with, and rely on, specialty adhesives from Dexter. The same products have also now been specified for the European airbus industry.

Microscopic bridges

Henkel Loctite and the new acquisition Multicore are proving ideal partners in terms of portfolio synergy. With their chip bonders and soldering materials, they serve all the promising smart technology applications of the future: Mobile telephony and semiconductor technology for notebooks, computers and the electronic control elements in airbags and in engines for the automotive electronics industry. Similarly aligned to the markets of the future are the biomedical adhesives from Loctite.

:anti-aging

Care and repair products for skin and hair to combat the aging processes

Schwarzkopf & Henkel adopt natural methods in meeting the desires of the consumer for skin that remains young and thick and healthy hair. Biological and environment-related aging processes can be significantly retarded, halted and, in some cases, even reversed. The key lies in knowledge of the bio-chemical cell processes that occur in skin and hair, gained by our Product Development/Application Technology in cooperation with renowned universities, institutes and our Central Research.

The business of Schwarzkopf & Henkel again outperformed the market at large. Growth in Europe was encouraging. The familiar umbrella brands have been supplemented by new products and launched into further national markets. In Portugal, Denmark and Canada, we assumed direct responsibility for the hair salon business, and in Japan we acquired the hair cosmetics specialist Yamahatsu.

COSMETICS.

Brand-name products take top positions

In hair cosmetics, we again achieved good sales successes. Our hair colorants have been completely revamped and the brands Live and Brillance have been introduced into further European countries: Live in Great Britain and – together with Brillance – in Italy and Spain. Strengthened by the continuing good performance of our colorant series Palette in Eastern Europe, we were able to significantly expand our market share in Europe in general.

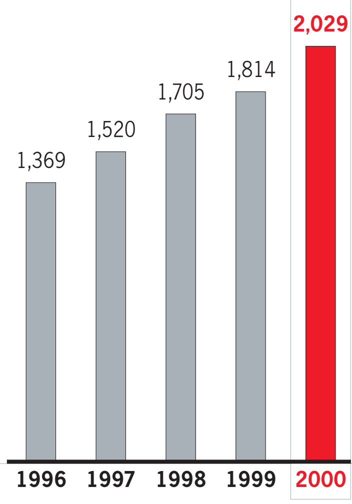
In the hair care sector, Schauma – extended by a number of new variants – continued to gain impressive market shares and further expanded its leading position in Germany. Gliss-Kur won further market shares following a comprehensive revamp and the decision to highlight its performance as a care product for damaged hair. Taft was also revised and supplemented by styling variants developed especially for dyed hair. In Germany, the product's market share was further extended, and this successful home base was used in order to launch Taft in France and Italy.

Sales revenue from toiletries and body care products again rose substantially. The focus of our activities was on the international implementation of the Fa relaunch. Fa Deo-Stick and Roll-on were rolled out into the major European markets. Fa Men was able to extend its presence in the gentlemen's body care market through the introduction of new variants. We continued the process of globalizing the Fa brands with successful introductions in India, Australia and New Zealand.

The skin care business again performed well. Major contributors to this development included the ongoing market success of Aok in Germany and also the introduction of Diadermine in Germany, Austria and Switzerland.

***Share of Group sales:* 16%**

Sales in million euro:



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.

Diadermine has, as a result, risen to third position among Europe's facial care brands.

Through relaunches and the development of new variants, our oral care products were able to maintain their position in Europe in a highly competitive market. Comprehensive advisory campaigns in cooperation with dentists supported our market activities.

Sales growth in fragrances was very pleasing. In France, our brand Scorpio was able to further improve its market position. Our Italian brands performed exceptionally well.

Good progress at regional level

Our German business recorded an increase in sales that was predominantly attributable to good developments in relation to Fa and also the performance of our colorants and hair care products. The successful introduction of Diadermine led to a significant increase in market shares in the facial care segment. In order to provide improved and more direct communication with consumers, we established the Internet platform "women's net".

In other European countries, too, sales grew faster than the market. The Austria Group with our affiliated companies in Eastern Europe, and our businesses in Benelux, Italy and Russia, were particularly successful. Developments in France, Spain and Scandinavia fell short of our expectations.

Sales performance in North America was good overall. Contributors to this were the hair care brands L.A. Looks and DEP. The market development achieved with Fa remained below target.

We recorded very pleasing sales increases in the Asia/Australia region. The decisive factor here was the successful launch of Fa in India, Australia and New Zealand. With the acquisition of Yamahatsu we have created a new platform for our hair cosmetics business in this region. Our business in China was repositioned and restructured.

In Latin America, sales increased significantly as well. Sales in Columbia were particularly good. Our business in Brazil has been restructured under strategic aspects.

Hair salon business still on the climb

Our hair salon business continued to perform exceptionally well, with all the main brands contributing. The finishing series Osis, newly launched into the international market, was very well received by our customers and offers a high level of additional market potential.

Outlook

In 2001, again, we intend to grow more strongly than the market overall.

In Europe we expect significant impetus to come from the rapid internationalization of our hair cosmetics range. We will continue resolutely to tread the path of globalization. Asia/Australia and America will again provide us with the main regional focus for our market development work.

We intend to support our international brands with high levels of market investment. Regional brands with local significance will continue to be managed in accordance with their profitability and sold off where appropriate.

The proteom analysis provides an indication as to the dermatologically active ingredients to which our skin positively responds. The resilience of hair is investigated in climate-controlled rooms.

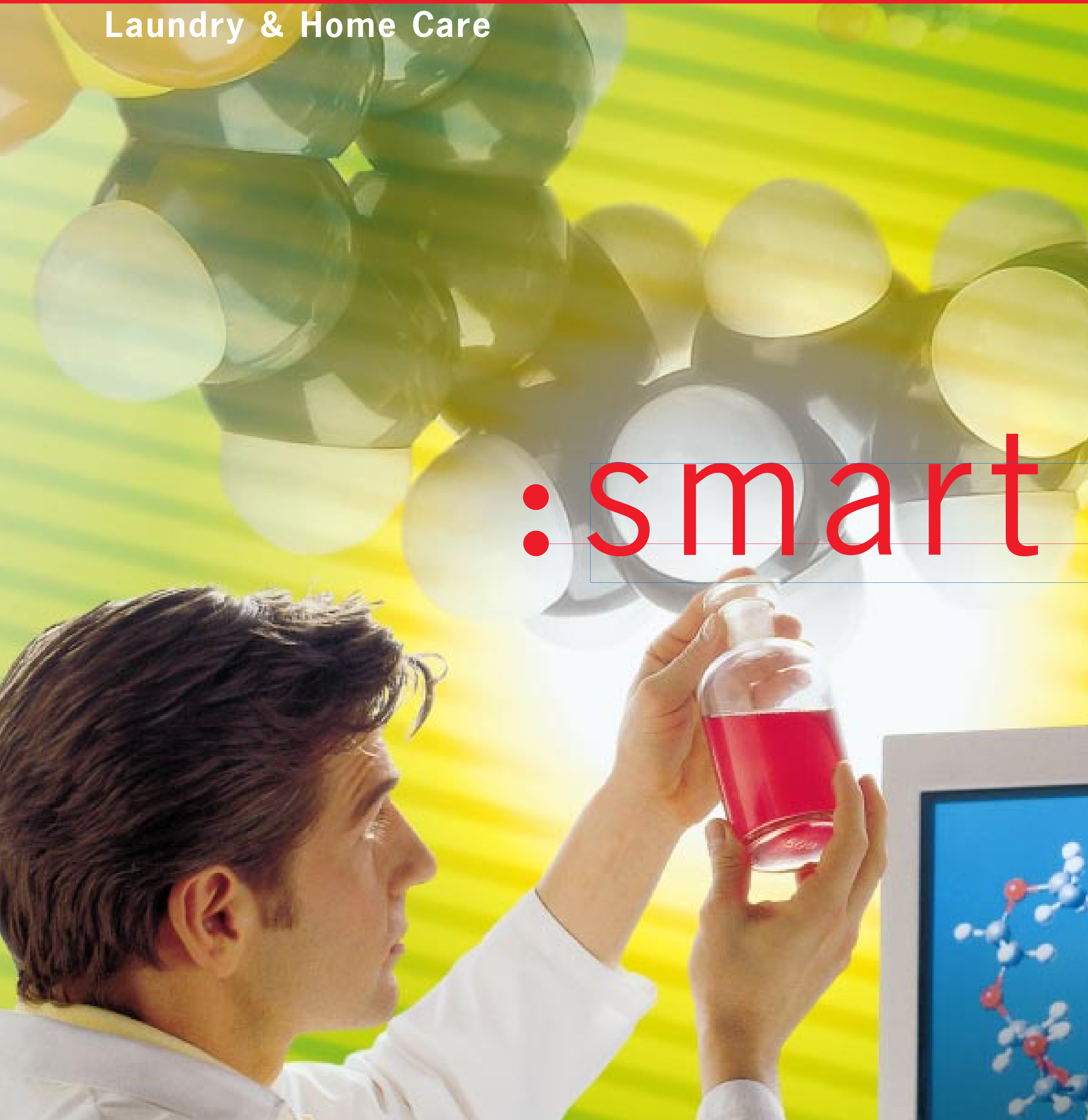
Henkel Cosmetics – keeping skin and hair youthful

Henkel has the key to realizing the dream of skin that stays young and thick hair able to retain its original color: a deep understanding of the natural and environment-related aging processes. With comprehensive scientific methods, the specialists from Schwarzkopf & Henkel investigate active ingredients and vitamin compositions that activate the natural skin and hair structures, naturally stimulate the metabolism and boost the body's own capability to produce protective and preserving substances.

Advanced cream formulations with vitamin A stimulate the collagen production of the skin cells and decelerate the collagen depletion of the skin caused by exposure to light. It has been proven with human subjects that, through this treatment, the wrinkle depth of the skin is reduced by 18 percent. Our Cosmetics R&D consequently pursues the search for and the selection and patenting of new, natural active ingredients with a plant or marine base in work that builds on our insight into the molecular-biological aging processes of the skin.

Similarly encouraging are the prospects in hair cosmetics of delaying the age-related graying of hair and hair loss caused by hormonal phenomena and genetic predisposition (androgenetic alopecia). The re-pigmentation of graying hair with Poly Re-Nature to return it to its original color was one of the first milestones in this development. The next stage will be to study the natural processes of hair pigmentation and to determine the possibilities of stimulating the roots of the hair to produce color pigments even at an advanced age. Henkel Hair Cosmetics has already patents pending for its first wave of active ingredients designed to stimulate the hair root cells that are responsible for hair thickness and growth. These biomimetic substances from nature serve to increase the production activity of the hair follicle.

With such anti-aging concepts and the ensuing hair care series based on natural-source active ingredients, Henkel Cosmetics has a firm grip on a significant market of the future, one that is likely to become ever more important as the population increasingly ages.



:smart

All-inclusive laundry and dishwashing detergents that are activated on demand

Modern laundry and automatic dishwashing machines can only utilize their integrated “intelligence” if the detergents used are able to respond by releasing their active ingredients in a controlled and effective fashion – i.e. in compliance with the requirements of the wash program, temperature, level of soiling, load volume and water hardness. Henkel has developed “switch products” for such applications. These state-sensitive detergents become activated at the right time and at the right place for their “services” to be most effective. The latest results from our product development program: Somat 3 in 1, a dishwashing tab with an integrated rinse aid and salt substitute. The demand for “thinking” laundry and dishwashing detergents can be expected to continue growing.

***Highest growth rate in ten years.** We have started the new millennium with record revenues from our Laundry & Home Care products. With a growth rate of 10 percent, we achieved the biggest increase in more than ten years. In spite of extensive market investments, we also succeeded in substantially increasing profit – by 10 percent. The reason for this success was the fact that, thanks to product innovations, we were able to implement price increases in the market.*

DETERGENTS.

Detergents

Our heavy-duty detergents performed well as a component part of our product range, increasing sales by 14 percent.

In Europe, our largest and most important market, we were again able to slightly extend our position against a backdrop generally characterized by stagnation. While defending our position in the standard powder market, we gained further market share in the constantly growing liquids segment thanks to a wide-ranging gel initiative.

We were particularly successful in the detergent concentrates segment. Indeed, fiscal 2000 saw us achieve market leadership in the EU, largely as a result of increased efforts in relation to Megaperls and the successful rollout of our detergent tablets.

Our major international brands Persil and Dixan consolidated their positions at a high level, while our important national brands all gained further market share. Spee moved up to the number 3 position among Germany's detergent brands.

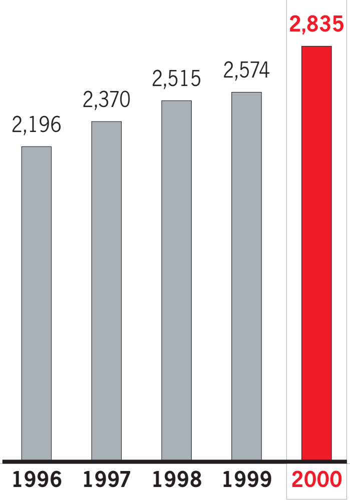
We recorded outstanding increases in revenue in France, Spain, the Benelux countries and Turkey. Once again, our business operations in Europe performed very successfully.

Outside Europe, the expansion of our local brand portfolio yielded exceptional growth. Within this context, our businesses in the Near and Middle East, and also in India, developed extremely well. The situation in China has improved significantly. Aside from increasing sales volumes, the major factors contributing to this improvement have been structural measures and efficiency gains.

In the course of the year under review, we were able once again to expand our presence outside Europe, adding

Share of Group sales: 22%

Sales in million euro:



Product groups: Heavy-duty detergents; special detergents; fabric softeners; dishwashing products; household cleaners; scouring agents; floor and carpet care products; bath and toilet cleaners; glass cleaners and lens wipes; furniture and kitchen care products; shoe care and laundry conditioning products; plant care products.

a further two countries with a high level of development potential to our portfolio. Henkel has succeeded in becoming the first western corporation to gain entry in the Algerian market, having established a joint venture with the local company ENAD.

At the beginning of the year, we acquired a majority holding in the Mexican detergents company Salgado. We then succeeded in significantly strengthening this business base through the acquisition of Colgate's Mexican heavy-duty detergents business. As a result, we expect to profit from the growth opportunities in this, the second-largest detergents market in Latin America.

In the USA, the business results of our joint venture with Dial fell far below our expectations. The realignment of our business strategy, agreed with our partner Dial, will henceforth focus our efforts on the home dry cleaning market.

Laundry Care

The special detergents of this product group also recorded double-digit increases in sales for the year 2000.

Performance was very good in our important mainstream business of wool and color detergents. Toward year-end we set a new trend with “black magic,” a liquid detergent that prevents the graying of black garments.

In the fabric softener sector, we successfully launched Vernel “Soft & Easy,” a product that facilitates ironing straight from the tumble drier.

However, the performance of the newly introduced category of home dry cleaning, a product concept launched in the year 2000 for cleaning in the domestic tumble drier, fell below our expectations.

Dishwashing and Cleaning Detergents

We were able to significantly improve our market position in the individual segments of this category during the year under review.

In the hand dishwashing detergents market, the “Vinegar” concept launched on a pan-European scale produced an excellent response from consumers. We were able to additionally expand our leading European market position through the acquisition of the Italian brand Nelsen.

In the automatic dishwashing detergents sector, our innovative product “Tab 2 in 1” (cleaning agent with integrated rinse aid) proved to be a recipe for success in our long-planned entry into the Italian market. Somat, another of our brands, was able to win back its position of leadership in the German household cleaner market through the launch of a further innovation in the form of the 2 in 1 powder “Pulver 2 in 1”. Our business activity in France was also significantly strengthened.

The introduction of a completely new two-phase all-purpose cleaner in Italy and Greece went particularly well. The other household cleaners likewise performed satisfactorily.

Outlook

Our intent for the year 2001 is once again to outstrip the market. Investments in our strong brand portfolio and further innovative products will assist us in achieving this goal. We will be endeavoring to further expand our business outside Europe, the share of sales of which continues to increase year by year.

In detergents and household cleaners, the complex composition of the active ingredients is critical. Molecular modeling aids in the creation of smart systems with new compounds and improved performance indices.

The future belongs to Smart Systems

They are environmentally compatible, efficient, safe and offer a high level of user convenience: The new generation of laundry and dishwashing detergents that fall under the category of "Smart Systems." Henkel created the first multi-functional automatic dishwashing detergent in 1999 with "Somat 2 in 1." Here, the active ingredients for the "sparkle rinse" are integrated in the tablet from which they are only released by a temperature-sensitive "switch" once the rinse cycle has started. Now, our developers have succeeded in creating a similar product in the form of a powder in which the surfactants responsible for the rinse action survive until the final finishing cycle when they are "stirred" into action.

Future machine generations will increasingly operate on the basis of so-called "fuzzy logic," i.e. aside from temperature parameters, the degree of soiling, the volume of the load and the hardness of the water will also be used to control the washing and rinsing cycles as appropriate. And the detergent products employed will need to offer a similar level of intelligence.

Integration of the salt substitute for active calcium binding in hard water constitutes a further milestone recently reached with Somat "3 in 1," rendering it even more consumer-friendly. The demand for products that combine easy handling with impressive cleaning performance is likely to increase. And the future holds a new generation of products in which the controlled release of the various active ingredients will be guaranteed with even greater accuracy and under ever more complex conditions.

The creation of further Smart Systems, our state-sensitive "switch" products, can be expected to ensue not just from Henkel's competency in laundry and home care products, but also from the synergies emanating from knowledge management in other areas. Examples include interface chemistry and particulate control (colloid chemistry) which our product developers are also successfully harnessing in the spheres of cosmetics and adhesive technology.

:engineering

Pre-formed parts for the safe and secure future of lightweight automobile construction

The trend in automobiles is very much toward frames that not only are lighter but also offer more comfort and safety. The associated challenge imposed by the market is being met through the constructive combination of steel or aluminum with an extremely light organic structural foam. Market leader in this field, and engineering partner to the world's automotive industry, is Henkel Surface Technologies. The epoxy foam Terocore stiffens vulnerable points in the frame or columns and increases the capacity of the structure to absorb impact energy in the event of an accident – with more acoustic travel comfort as an added bonus.

The systems businesses Industrial and Institutional Hygiene – in the form of the European joint venture Henkel-Ecolab – and Surface Technologies performed well in fiscal 2000. Both these units recorded further increases in market share and profitability.

SECURITY.

Industrial and Institutional Hygiene

This business is operated in Europe as a joint venture, Henkel-Ecolab, in collaboration with our American partner Ecolab Inc., St Paul, Minnesota, USA. Together, Ecolab and Henkel-Ecolab are the world market leader in Industrial and Institutional Hygiene.

In a stagnating, highly competitive market, we succeeded in increasing sales by 7 percent over last year. Here, we actually exceeded our growth targets and were able once again to increase market share. In spite of rising raw material prices and price-sensitive customer groups, we improved operating profit by 11 percent and thus our return on investment. This was achieved through innovative product systems, strident product improvements and strict cost management in all fields of activity.

Thanks to new, carefully aligned system offerings and European wholesale partnerships, we achieved organic growth in all our product segments.

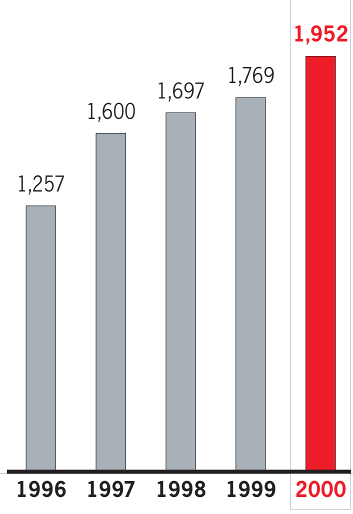
The Institutional Hygiene division once again grew market share, particularly in relation to its key account business. New contracts covering long-term cooperation were concluded with important customers such as Club Med, Sodexho/Gardner Merchant and Compass.

Professional Hygiene expanded its market share in the important contract cleaner segment. The cleaning equipment manufacturing operation in Waldhausen, Germany, was divested. Our organization in Switzerland was restructured.

The Hospital Hygiene business in Germany and the markets of Eastern Europe is showing gratifying growth. It is to be further expanded to the areas of doctors' surgeries and homes for the elderly.

***Share of Group sales:* 15%**

Sales in million euro:



Product groups:

Industrial and Institutional Hygiene: Products, appliances, equipment, systems and services for cleaning, laundry care, maintenance, sanitizing and disinfecting applications at major public-sector and institutional customers, in the food and beverage industry, and in the agricultural sector.

Surface Technologies: Products and application systems for the chemical surface treatment of metals and metal substitutes; lubricants; cleaning products; corrosion inhibitors; products for conversion processing and for the treatment of cooling, process and wastewater; process control and metering equipment; antifreeze agents and corrosion inhibitors for vehicle cooling systems; CFC substitutes for cleaning applications. Specialty products for the automotive industry: polyurethane adhesives and elastomer sealants, epoxide structural adhesives, PVC and polyacrylate plastisols, dispersion adhesives, hotmelt adhesives and corrosion protection waxes.

The Food & Beverage/P3 Hygiene division concentrates on the growth markets of the food and pharmaceutical industries. Its key account business with significant multinational customers such as Nestlé and Coca-Cola progressed very well in fiscal 2000.

The Textile Hygiene business succeeded in developing new growth areas and performed exceptionally well against the background of a stagnating market. The sales network in Norway was significantly strengthened through the acquisition of Thors Kemiske. The European rollout of the H.E.R.O. system for the treatment of wastewater from industrial-scale laundries was successfully completed. We significantly strengthened our business involving international laundry chains.

Surface Technologies

The Surface Technologies businesses performed very well during fiscal 2000. The Automotive unit maintained strong sales in the pretreatment fields and adhesives and sealants in most regions. The Industry unit continued its worldwide upward performance and increased its market share in all important business segments.

Our businesses developed most positively all over Europe. In Asia/Pacific the activities in the automotive and steel industries were particularly successful. Similarly good performance recorded our businesses in South and Central America.

Joint ventures in China, the Hong Seong operation in Korea and also Cemedine in Japan developed as planned. Our expansion in the emerging markets gained further momentum through a new joint venture in Russia, Henkel Plastic Auto-components, in Syzran.

Automotive business

Business growth derived from new gains in pre-treatment body lines in China and Europe, further expanding our market share.

Terocore, body reinforcement technology, is increasingly used for new car models worldwide. In Germany, the introduction of a certain new car model only became possible as a result of the Terocore technology being available for body reinforcement.

Industry business

Sales performance in all regions and market segments was extremely pleasing. The gains in Latin America and Asia/Australia were particularly encouraging. We succeeded in significantly expanding our business in the steel industries, the components industries, the architectural aluminum market and the cold forming sector.

Outlook

In the Industrial and Institutional Hygiene business, we intend to further expand our structures while at the same time subjecting them to strict scrutiny with a view to maximizing quality and efficiency. We expect 2001 to bring further exceptional growth rates and feel safe in assuming that the business will be in a highly healthy state when it is transferred to Ecolab on January 2, 2002, as contractually agreed.

We also expect further growth worldwide in the Surface Technologies business. Our attention here will focus on the regions of North America, Europe and Asia/Australia.

At Teroson, the pre-formed parts that are so effective in enhancing safety, comfort and lightness of construction are created by advanced computer-aided design. (Bottom: injection molding machine).

Engineers get chemistry into good shape

In Heidelberg, the USA and France, teams of engineers work on design solutions for leading automobile manufacturers – online, in concert and linked up to the vehicle developers. The properties of our Terocore components can be simulated using mathematical models visualized by a virtual on-screen car to investigate crash behavior, rigidity and energy absorption. In fiscal 2000, 800,000 cars in Europe and around 2 million vehicles in the USA were equipped with these so-called pre-formed parts from Surface Technologies. This year will see a further wave of new models come onto the scene. Our promotional work and the results of Terocore applications are beginning to tell. And the outlook is highly promising, with Terocore recognized and used by all automobile manufacturers in the world as an effective structural material.

The use of pre-formed parts as constructional composites manufactured in the injection molding machine, or as semi-finished products, is becoming increasingly regarded as state-of-the-art, with full integration in vehicle body production lines now a reality. As the finished body is heated to around 180° Celsius for baking the first coat of primer, a foaming agent contained in the polymer substance expands the uncured medium like a cake in an oven. The epoxy resin then hardens and forms a positive connection with the surrounding metal surfaces. The micro-pored, now solid foam compound bolsters the more vulnerable points of the construction and the structural strength of the vehicle is duly enhanced.

The Terocore engineering teams, active around the world, will initially be concentrating on the automotive market, even if there are other possible applications: Household appliances, metal paneling and cladding components, containers, trains and trams. The market potential in our markets is truly extensive.

:innovative

Cognis links the ingenuity of nature to the power of science

As an innovative, knowledge-based company, Cognis combines nature's powerful synthesis capabilities to the scientific human know-how, creating a multitude of products for numerous industrial and consumer goods applications. In its divisions Oleochemicals, Care Chemicals and Organic Specialties, Cognis uses its know-how to provide its customers with ideas, concepts and problem solutions that offer true added value and create the basis for future prosperity.

The first year of business at Cognis was extraordinarily successful. This young company has firmly established itself as a leading proponent of specialty chemistry. It has also achieved a high level of employee identification with the new corporate identity. Relationships with customers have been further enhanced. The company's focus on product groups offering particularly strong growth rates and high innovation potential has proven successful and the policy will be consequently continued.

CHEMICALS.

At Cognis, fiscal 2000 was supported by a good level of business activity in the chemical sector worldwide. The strength of the US dollar against the euro boosted the company's export business. The significant price increase in petrochemical raw materials and higher energy costs had a negative influence on margins in some business segments. Lower costs of natural-source oils and fats could only partially offset these effects. Price increases were implemented during the second half of the year.

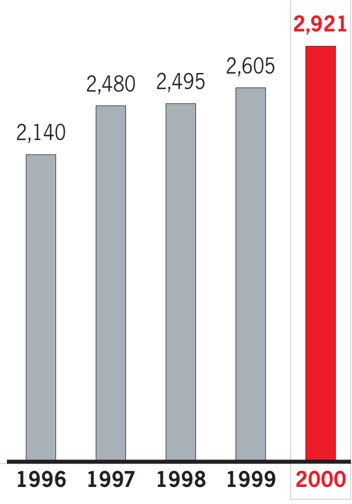
Against a generally positive background, the business sector Chemical Products (Cognis) succeeded in increasing sales by 12 percent to 2,921 million euro (including sales to other business sectors by 10 percent to 3,186 million euro). All strategic business units contributed to this excellent result. With a rise of almost 21 percent to 220 million euro, operating profit showed above-average growth. The performance indices exhibited a corresponding improvement – with return on sales rising from 7.0 percent to 7.5 percent, and return on investment increasing from 11.5 percent to 11.9 percent.

Oleochemicals: High utilization of production capacities

With double-digit growth rates, the Oleochemicals business was able to further expand its world-leading position. The strength of the oleochemical markets was already becoming apparent by the end of 1999, and this upward trend continued right through fiscal 2000. Market shares for both fatty acids and fatty alcohols increased. The level of utilization of our production capacities was high. Supported by higher price levels for glycerine, and stable prices for fatty acids and fatty alcohols, the overall profitability increased substantially. All regions contributed to the good performance of Oleochemicals.

Share of Group sales: 23%

Sales in million euro:



Product groups:

Oleochemicals: Fatty acids; glycerine and fatty acid derivatives; fatty alcohols and their derivatives; food and feedstuff additives; natural-source vitamin E and carotenoids.

Care Chemicals: Products for the cosmetics, toiletries and pharmaceutical industries, and for detergents and household cleaners; aroma chemicals/ perfume compositions.

Organic Specialties: Compounds and additives for plastics, coatings and inks; auxiliary products for textile and leather production; specialty products and formulations for lubricants, agrosolutions and the oilfield industry; system solutions for mining.

Inorganic Products: Silicates

The Nutrition Technology business unit expanded its compounds business and improved its product portfolio.

Cognis made good progress in the natural antioxidants business (business unit: Nutrition & Health). However, the important U.S. market exhibited a rather weak development, while the market for nutritional supplements grew substantially on a worldwide scale. Cognis leveraged its existing market position successfully.

Care Chemicals: Creative products, scientific concepts

Performance of Care Chemicals was at a uniformly good level throughout fiscal 2000. Although all regions contributed to the double-digit growth in sales, U.S. operations could not fully meet the expectations.

The progress made in the Personal Care segment was driven by our knowledge of emulsion technology and its related applications in “wet wipes”, sun-protection products and deodorants/antiperspirants. Many creative and efficient new products were derived from strong scientific concepts which were developed by the research and development groups of the Skin Care Center at Laboratoires Sérobiologiques. All key products have been successfully launched onto the market in the year under review.

Care Surfactants has introduced a new generation of pearl gloss concentrates and oleochemical base opacifiers (dulling agents) that offer additional enhancements for hair care and body care products.

Organic Specialties: Sound performance overall

Double-digit growth rates in sales to the coatings and inks industry were achieved during the year under review. Major contributors to this success were additives, photomers and polymerization products.

The plastics additives business declined due to plant closures and portfolio improvements. The strategy of evolving from a product supplier to a system supplier with high-quality heat stabilizers was successfully pursued.

Our lubricant activities exhibited a slight downturn as the 30 percent decline in truck production in North America hit Cognis particularly hard.

Our products for the agricultural sector, oilfield production and the mining industry markedly increased sales. Textile Technology produced significantly better results than the benchmark indices in all regions (with the exception of North America). The acquisition of Hispano Química in Spain has improved the market position of our core businesses and, more importantly, enabled a restructuring of the production network on the Iberian peninsula with higher efficiencies.

Outlook

Cognis intends to adjust its organizational structures, clearly distinguishing between commodity-type and specialty businesses. The objective is to better meet the relevant supply chain requirements and enhance the market development work. On the basis of continuing favorable raw material costs, we expect further increases in sales and earnings in 2001.

Customers utilize the know-how of Cognis' specialists, often assigning to them full responsibility for the development of complex formulations and distinctive products offering specific activity mechanisms.

Optimizing the effects of nature

Our High-Care specialists operate on the basis of a simple yet effective formula: To take the best of nature and optimize it using all means available from biology, chemistry and physics. The focus in the product development work conducted in cooperation with our customers is on devising promising formulations for the care, protection and rejuvenation of skin and hair. As examples, the search for suitable natural-source active ingredients has led to the farming of sea algae, the African tree of life Baobab and domestic hibiscus cultures – for the extraction of anti-stress ingredients, moisturizers and anti-wrinkle proteins.

Thanks to its many years of fundamental know-how and methodological competency, Cognis possesses a broad platform of expertise in all the relevant biochemical processes that serve the growth sectors of cosmetics: facial care, decorative cosmetics, body care, sun protection preparations and deodorants. The know-how of the High-Care experts of Laboratoires Sérobiologiques in Nancy – recognized both in Europe and overseas – has further strengthened the prospects of this business.

Convincing product systems

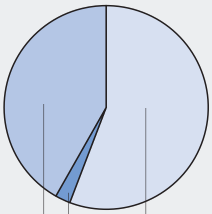
Solvent-free coatings for the automotive, electronic, furniture and construction industries are examples of how ecologically compatible protection can be provided for valuable material surfaces. Meanwhile, so-called photomers – UV-cured polymers manufactured from acrylates and natural oils and fats – provide industry with supremely effective production concepts.

The product portfolio of Cognis Organic Specialties to solve interface phenomena and to protect surfaces from corrosion extends to process chemicals for textile technology, synthetic base lubricants, and mining chemicals that serve to extract metals from ores – without the usual thermal smelting processes that are energy-expensive and environmentally polluting.

These few examples from our Care Chemicals and Organic Specialties business units are indicative of our future-oriented principle to harness the best that science can offer and to utilize the resources of nature in a more responsible manner.

Henkel Group Consolidated Balance Sheet

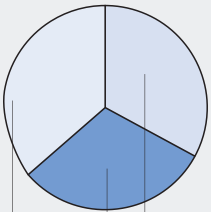
Assets



	Notes	December 31, 1999 EUR mill.	December 31, 2000 EUR mill.
Intangible assets	(1)	2,111	2,602
Property, plant and equipment	(2)	2,606	2,771
– Shares in associated companies		685	799
– Other investments		102	123
Financial assets	(3)	787	922
(55.8%) **55.3%** **Fixed assets**		**5,504**	**6,295**
Inventories	(4)	1,505	1,711
Trade accounts receivable	(5)	2,022	2,302
Other receivables and miscellaneous assets	(6)	447	622
Liquid funds/Marketable securities	(7)	141	155
(41.8%) **42.1%** **Current assets**		**4,115**	**4,790**
(2.4%) **2.6%** **Deferred tax assets**	(8)	**237**	**297**
Total assets		**9,856**	**11,382**

(1999 figures in brackets)

Shareholders' Equity and Liabilities



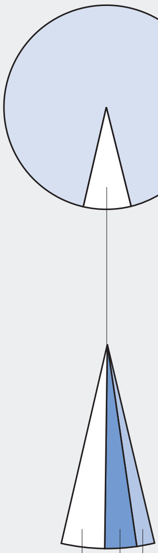
	Notes	December 31, 1999 EUR mill.	December 31, 2000 EUR mill.
Subscribed capital	(9)	374	374
Capital reserve	(10)	652	652
Revenue reserves	(11)	2,028	2,232
Unappropriated profit		131*	157
Currency translation difference	(12)	– 237	– 192
Equity excluding minority interests		**2,948**	**3,223**
Minority interests	(13)	290	277
(32.9%) **30.8%** **Equity including minority interests**		**3,238**	**3,500**
Provisions for pensions and similar obligations	(14)	1,871	1,984
Other provisions	(15)	1,159	1,076
Provisions for deferred tax liabilities	(16)	184	200
(32.6%) **28.6%** **Provisions**		**3,214**	**3,260**
Borrowings	(17)	1,915	2,963
Trade accounts payable	(18)	1,029	1,117
Other liabilities	(19)	460	542
(34.5%) **40.6%** **Liabilities**		**3,404**	**4,622**
Total equity and liabilities		**9,856**	**11,382**

(1999 figures in brackets)

* total dividend payout proposed by Henkel KGaA for 1999

	1999	2000
Equity ratio %	32.9	30.8
(equity including minority interests ÷ total assets)		

Henkel Group Consolidated Statement of Income



		Notes	1999 EUR mill.	**2000 EUR mill.**
100%	**Sales**	(23)	**11,361**	**12,779**
	Cost of sales	(24)	– 6,132	– 6,999
	Gross profit		**5,229**	**5,780**
	Marketing, selling and distribution costs	(25)	– 3,220	– 3,604
	Research and development costs	(26)	– 279	– 320
	Administrative expenses	(27)	– 678	– 748
	Other operating income	(28)	146	214
	Other operating charges	(29)	– 75	– 89
			1,123	**1,233**
	Amortization of goodwill	(30)	– 144	– 183
	Restructuring costs	(31)	– 122	– 100
(7.5%) **7.4%**	**Operating profit (EBIT)**		**857**	**950**
	Net income from associated companies		91	156
	Net result from other participations		5	11
	Net interest expense		– 261	– 301
(– 1.4%) **– 1.0%**	**Financial items**	(32)	**– 165**	**– 134**
	Earnings before tax		**692**	**816**
(– 2.5%) **– 2.4%**	**Taxes on income**	(33)	**– 288**	**– 311**
(3.6%) **4.0%**	**Net earnings**		**404**	**505**
(1999 figures in brackets)	Minority interests	(34)	– 40	– 37
	Earnings after minority interests		**364**	**468**
	Allocation to revenue reserves		– 233	– 311
	Unappropriated profit		**131***	**157**

* total dividend payout proposed by Henkel KGaA for 1999

Key ratios

		1999	2000
Return on equity %			
(net earnings ÷ equity capital at beginning of year)		14.3	15.6
Interest coverage ratio			
(earnings before interest and taxes ÷ net interest expense)		3.65	3.71
Ratio of debt to cash flow 1			
(borrowings ÷ cash flow)		1.54	2.56
Ratio of debt to cash flow 2			
(total of borrowings and pension provisions ÷ cash flow)		3.04	4.27
Earnings per share (according to IAS) in euro	– ordinary shares	2.47	3.20
	– preferred shares	2.53	3.25

Henkel Group Segment Information (figures in million euro)

Business Sectors

	Adhesives	Cosmetics/ Toiletries	Laundry & Home Care	Hygiene/ Surface Technology	Chemical Products (Cognis)	Other *	Group
Sales 2000	2,959	2,029	2,835	1,952	2,921	83	12,779
Change from previous year	+ 18.3 %	+ 11.9 %	+ 10.2 %	+ 10.3 %	+ 12.2 %	– 15.3 %	+ 12.5 %
Proportion of Group sales	23 %	16 %	22 %	15 %	23 %	1 %	100 %
Sales 1999	2,501	1,814	2,574	1,769	2,605	98	11,361
Operating profit before depreciation and amortization (EBITDA) 2000	453	233	332	267	363	– 25	1,623
Operating profit before depreciation and amortization (EBITDA) 1999	403	217	315	241	339	– 7	1,508
Change from previous year **	+ 12.4 %	+ 7.2 %	+ 5.5 %	+ 11.0 %	+ 7.1 %	–	+ 7.6 %
Return on sales (EBITDA) 2000	15.3 %	11.5 %	11.7 %	13.7 %	12.4 %	–	12.7 %
Return on sales (EBITDA) 1999	16.1 %	12.0 %	12.2 %	13.6 %	13.0 %	–	13.3 %
Operating profit before amortization of goodwill (EBITA) 2000	352	179	215	190	227	– 30	1,133
Operating profit before amortization of goodwill (EBITA) 1999	316	163	182	162	188	– 10	1,001
Change from previous year **	+ 11.3 %	+ 9.7 %	+ 18.2 %	+ 17.5 %	+ 20.6 %	–	+ 13.2 %
Return on sales (EBITA) 2000	11.9 %	8.8 %	7.6 %	9.7 %	7.8 %	–	8.9 %
Return on sales (EBITA) 1999	12.6 %	9.0 %	7.1 %	9.2 %	7.2 %	–	8.8 %
Operating profit (EBIT) 2000	256	134	195	175	220	– 30	950
Operating profit (EBIT) 1999	237	123	177	148	182	– 10	857
Change from previous year **	+ 7.9 %	+ 8.8%	+ 9.8 %	+ 18.4 %	+ 21.2 %	–	+ 10.9 %
Return on sales (EBIT) 2000	8.6 %	6.6 %	6.9 %	9.0 %	7.5 %	–	7.4 %
Return on sales (EBIT) 1999	9.5 %	6.8 %	6.9 %	8.4 %	7.0 %	–	7.5 %
Return on investment (EBIT) 2000	10.3 %	13.2 %	24.2 %	21.9 %	11.9 %	–	13.5 %
Return on investment (EBIT) 1999	10.7 %	12.5 %	24.2 %	19.2 %	11.5 %	–	13.2 %
Return on capital employed (ROCE) 2000 ***	12.5 %	14.9 %	26.0 %	22.3 %	12.1 %	–	14.8 %
Capital expenditure (excl. financial assets) 2000	623	124	337	83	143	5	1,315
Capital expenditure (excl. financial assets) 1999	101	55	117	78	118	7	476
Operating assets 2000	3,135	1,501	1,475	1,209	2,403	225	9,948
Operating liabilities 2000	655	488	670	411	555	111	2,890
Net operating assets employed 2000	2,480	1,013	805	798	1,848	114	7,058
Operating assets 1999	2,734	1,428	1,313	1,140	2,051	279	8,945
Operating liabilities 1999	527	442	579	369	467	62	2,446
Net operating assets employed 1999	2,207	986	734	771	1,584	217	6,499
Research and development costs (R&D) 2000	85	34	66	48	68	19	320
R&D as % of sales 2000	2.9	1.7	2.3	2.5	2.3	–	2.5
Research and development costs (R&D) 1999	74	28	61	46	61	9	279
R&D as % of sales 1999	3.0	1.5	2.4	2.6	2.3	–	2.5

* secondary activities and general expenses; changes from previous year and returns % not shown

** changes from previous year on the basis of figures in thousand euro

*** EBITA as % of capital employed (net operating assets, incl. goodwill at cost instead of at book value)

Henkel Group Segment Information (figures in million euro)

Regions

	Germany	Europe (other than Germany)	North America	Latin America	Africa	Asia/ Australia	Group
Sales by location of companies 2000	3,201	5,291	2,215	577	216	1,279	12,779
Change from previous year	+ 5.0 %	+ 7.8 %	+ 17.1 %	+ 29.4 %	+ 53.2 %	+ 36.9 %	+ 12.5 %
Proportion of Group sales	25 %	41 %	17 %	5 %	2 %	10 %	100 %
Sales by location of companies 1999	3,048	4,909	1,892	446	141	925	11,361
Sales by location of markets 2000	2,567	5,667	2,180	663	271	1,431	12,779
Change from previous year	– 0.7 %	+ 10.5 %	+ 17.4 %	+ 22.8 %	+ 48.9 %	+ 33.9 %	+ 12.5 %
Proportion of Group sales	20 %	45 %	17 %	5 %	2 %	11 %	100 %
Sales by location of markets 1999	2,584	5,129	1,857	540	182	1,069	11,361
Operating profit before depreciation and amortization (EBITDA) 2000	515	736	190	63	17	102	1,623
Operating profit before depreciation and amortization (EBITDA) 1999	556	631	215	49	12	44	1,508
Change from previous year *	– 7.4 %	+ 16.6 %	– 11.6 %	+ 28.6 %	+ 41.7 %	+ 131.8 %	+ 7.6 %
Return on sales (EBITDA) 2000	16.1 %	13.9 %	8.6 %	10.9 %	7.9 %	8.0 %	12.7 %
Return on sales (EBITDA) 1999	18.2 %	12.9 %	11.4 %	11.0 %	8.5 %	4.8 %	13.3 %
Operating profit before amortization of goodwill (EBITA) 2000	330	582	112	41	11	57	1,133
Operating profit before amortization of goodwill (EBITA) 1999	372	455	130	32	8	4	1,001
Change from previous year *	– 11.3 %	+ 27.9 %	– 13.8 %	+ 28.1 %	+ 37.5 %	–	+ 13.2 %
Return on sales (EBITA) 2000	10.3 %	11.0 %	5.1 %	7.2 %	5.2 %	4.5 %	8.9 %
Return on sales (EBITA) 1999	12.2 %	9.3 %	6.9 %	7.2 %	5.7 %	0.4 %	8.8 %
Operating profit (EBIT) 2000	296	529	55	32	8	30	950
Operating profit (EBIT) 1999	339	406	87	25	7	– 7	857
Change from previous year *	– 12.8 %	+ 30.7 %	– 36.8 %	+ 28.0 %	+ 14.3 %	–	+ 10.9 %
Return on sales (EBIT) 2000	9.2 %	10.0 %	2.5 %	5.5 %	3.9 %	2.4 %	7.4 %
Return on sales (EBIT) 1999	11.1 %	8.3 %	4.6 %	5.6 %	5.0 %	– 0.8 %	7.5 %
Return on investment (EBIT) 2000	16.4 %	24.7 %	3.4 %	7.5 %	7.6 %	3.2 %	13.5 %
Return on investment (EBIT) 1999	18.6 %	19.3 %	5.9 %	7.4 %	10.6 %	– 1.0 %	13.2 %
Return on capital employed (ROCE) 2000 **	17.0 %	24.6 %	6.2 %	9.2 %	9.4 %	5.7 %	14.8 %
Capital expenditure (excl. financial assets) 2000	177	276	476	156	66	164	1,315
Capital expenditure (excl. financial assets) 1999	194	176	52	14	10	30	476
Net operating assets employed 2000	1,804	2,144	1,639	424	111	936	7,058
Net operating assets employed 1999	1,819	2,098	1,485	338	66	693	6,499

* changes from previous year on the basis of figures in thousand euro

** EBITA as % of capital employed (net operating assets, incl. goodwill at cost instead of at book value)

Changes in fixed assets (figures in million euro)

Cost

	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 2000	**2,971**	**6,846**	**791**	**10,608**
Changes in the Group/acquisitions	669	345	– 21	993
Additions	32	465	112	609
Disposals	54	353	3	410
Reclassifications	–	–	–	–
Translation differences	69	83	46	198
At December 31, 2000	**3,687**	**7,386**	**925**	**11,998**

Accumulated depreciation

	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 2000	**860**	**4,240**	**4**	**5,104**
Changes in the Group/acquisitions	8	188	– 2	194
Write-ups	–	1	–	1
Depreciation and amortization 2000	242	432	1	675
Disposals	49	294	–	343
Reclassifications	–	–	–	–
Translation differences	24	50	–	74
At December 31, 2000	**1,085**	**4,615**	**3**	**5,703**
Fixed assets (net) at December 31, 2000	**2,602**	**2,771**	**922**	**6,295**
Fixed assets (net) at December 31, 1999	**2,111**	**2,606**	**787**	**5,504**
The amount charged for depreciation and amortization in 2000 comprises:				
Scheduled depreciation and amortization	232	407	–	639
Unscheduled depreciation and amortization	10	25	1	36
	242	**432**	**1**	**675**
The amount charged for depreciation and amortization in 1999 comprises:				
Scheduled depreciation and amortization	206	380	–	586
Unscheduled depreciation and amortization	6	61	1	68
	212	**441**	**1**	**654**

Henkel Group Cash Flow Statement (figures in million euro)

	1999	2000
Operating profit/EBIT	**857**	**950**
Income taxes paid	– 230	– 404
Depreciation of fixed assets (excl. financial assets)	651	673
Net gains from disposals of fixed assets (excl. financial assets)	– 31	– 60
Cash flow	**1,247**	**1,159**
Change in inventories	12	– 91
Change in receivables and miscellaneous assets	– 176	– 207
Change in liabilities and provisions	142	– 154
Net cash flow from operating activities	**1,225**	**707**
Net cash flow from investing activities [1]	**– 570**	**– 1,337**
Net cash flow from financing activities [2]	**– 657**	**624**
Change in cash and cash equivalents	**– 2**	**– 6**
Effect of exchange rate changes on cash and cash equivalents	10	3
Change in cash and cash equivalents due to first-time inclusion of companies	6	17
Change in liquid funds and marketable securities	**14**	**14**
Liquid funds and marketable securities at January 1	127	141
Liquid funds and marketable securities at December 31	141	155

	1999	2000
[1] Capital expenditure on intangible assets	– 48	– 32
Capital expenditure on property, plant and equipment	– 428	– 465
Capital expenditure on financial assets	– 150	– 44
Acquisitions	– 76	– 927
Proceeds from disposals of fixed assets	132	131
Net cash flow from investing activities	**– 570**	**– 1,337**

	1999	2000
[2] Henkel KGaA dividends	– 119	– 131
Subsidiary company dividends (to other shareholders)	– 22	– 21
Interest and dividends received	96	144
Interest paid	– 224	– 250
Change in borrowings	– 374	935
Repurchase of treasury shares	–	– 63
Other financing transactions	– 14	10
Net cash flow from financing activities	**– 657**	**624**

(figures in million euro unless stated otherwise)

General information

The consolidated financial statements of Henkel KGaA have been drawn up in accordance with the standards issued by the International Accounting Standards Committee (IASC), London.

All the International Accounting Standards have been observed which are compulsory as of December 31, 2000.

The financial statements of companies included in the consolidation have been audited by members of the KPMG organization or by other independent firms of auditors instructed accordingly. The financial statements are all drawn up at the same accounting date as those of Henkel KGaA, with the exception of the companies in the Henkel-Ecolab joint venture (whose fiscal year ends on November 30).

In order to improve the clarity and informative value of the financial statements, certain items have been combined in the balance sheet and also in the statement of income and shown separately in the Notes. The following items have a material impact on the statement of income and so are shown under separate headings in that statement in order to make it more informative:

- restructuring costs
- amortization of goodwill
- research and development costs.

Companies included in the consolidation

Apart from Henkel KGaA and its branch operation in Genthin, the consolidated financial statements include 49 domestic and 351 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.

62 subsidiary companies which are not material for a true and fair view of the net worth, financial position and results of the Group have not been included in the consolidation. The companies in question are mainly companies which are no longer actively trading.

The investments in The Clorox Company, Oakland, California, and Ecolab Inc., St. Paul, Minnesota (both in the USA) are accounted for by the equity method.

Five domestic and 43 foreign companies have been included in the consolidated Group figures for the first time. The most important of these were:

Important companies included in the consolidation for the first time

Name	Group shareholding %	Acquisition cost* EUR mill.	Sales EUR mill.	Number of employees	Business
Dexter, USA	100.0	429	280	1,460	Adhesives
Multicore, Great Britain	100.0	87	62	620	Adhesives
ENAD, Algeria	60.0	71	100	1,215	Detergents
Yamahatsu, Japan	51.5	45	76	280	Cosmetics
Salgado, Mexico	80.0	52	39	560	Detergents

*purchase price including bank borrowings and liquid funds taken over

(in million euro)	1999	2000
Fixed assets	77	264
Current assets	43	371
Debt	24	375

The effect of all the changes and acquisitions in the Group on major balance sheet items is shown in the table alongside.

The list of shareholdings owned by Henkel KGaA and by the Henkel Group is filed with the Commercial Register in Düsseldorf under number B 4724 and will also be on display at the Annual General Meeting.

Consolidation principles

Companies are included in the consolidation by setting off their book values against their assets and liabilities (the purchase method). Any differences remaining after making fair value adjustments to the assets and liabilities are shown as goodwill and amortized on a systematic basis.

The same procedure is adopted for investments accounted for by the equity method, any existing goodwill being included in the equity valuations of the companies concerned. The contribution which these companies make to earnings - after amortization of goodwill - is included in net income from participations in the consolidated statement of income. There is one joint venture included in the consolidation on a proportional basis.

Sales, income and expenses and all accounts receivable and payable between companies included in the consolidation are set off against each other. Intercompany profits included in the valuation of fixed assets or inventories supplied by other companies in the Group are eliminated for consolidation purposes. Such intra-Group supplies are made on the basis of market or transfer prices. Deferred taxation, calculated at the average rate of tax chargeable on profits of the Group, is accrued on consolidation procedures affecting net earnings.

Currency translation

The financial statements of companies included in the consolidation are translated into euro. Assets and liabilities are translated at the mid rates ruling at the balance sheet date. Income and expense items are translated at average rates for the year; the difference in comparison to the year end rates being taken to equity and shown separately as “Currency translation differences” without affecting earnings.

Companies in countries with high rates of inflation draw up their financial statements either in DM or in US dollars in order to eliminate the effects of inflation. At 1999 exchange rates, net earnings for 2000 would have been 3 million euro less.

Foreign currency accounts receivable and payable in the Group are translated at hedged rates of exchange or at the closing rates. Exchange gains and losses on intra-Group debt relationships which are recognized in the individual financial statements of companies included in the consolidation are reversed in the consolidated financial statements, but realized as gains or losses when the debt relationships are reduced or redeemed.

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

Unit of currency

	ISO code	Average rate in euro		Closing rate in euro	
		1999	**2000**	1999	**2000**
1 British pound	GBP	1.52	1.65	1.6116	1.6043
100 Swiss francs	CHF	62.46	64.12	62.3130	65.6986
100,000 Turkish lira	TRL	0.22	0.17	0.1835	0.1606
1 Brazilian real	BRL	0.53	0.59	0.5496	0.5520
100 Japaneses yen	JPY	0.83	1.00	0.9742	0.9354
100 Mexican pesos	MXN	9.81	11.41	10.4931	11.2107
1 US dollar	USD	0.94	1.08	0.9973	1.0747

Effect of exchange rate fluctuations

(increase in million euro)

Fixed assets	124
Inventories	22
Receivables	20
Shareholders’ equity incl. minority interests	52
Provisions	39
Liabilities	75

Notes to the Balance Sheet (figures in million euro unless stated otherwise)

Fixed assets

Fixed assets subject to wear and tear are depreciated exclusively by the straight-line method on the basis of estimated useful lives standardized throughout the Group, unscheduled depreciation being charged where necessary.

The following standard useful lives continue to be used as the basis for calculating depreciation for Group reporting purposes:

Useful lives

	Years
Goodwill	up to 15 *
Trademarks, licenses, patents	8
Residential buildings	50
Office buildings	33-40
Research and factory buildings, workshops, stores and staff buildings	25-33
Operating installations	20-25
Machinery	7-10
Office equipment	10
Vehicles	5
Factory and research equipment	5

* Loctite and Dexter goodwill over 20 years owing to its outstanding international market position

(1) Intangible assets

Assets acquired for valuable consideration are included under this heading. The additions to patents, licenses and similar rights relate to normal business activities and the companies and businesses acquired in 2000.

The increase in purchased goodwill relates to companies included in the consolidation for the first time in 2000 – mainly Dexter in the USA, Multicore in Great Britain, ENAD in Algeria, Yamahatsu in Japan, and Salgado in Mexico.

Cost

	Patents/Licenses	Goodwill	Total
At January 1, 2000	**508**	**2,463**	**2,971**
Changes in the Group/acquisitions	127	542	669
Additions	18	14	32
Disposals	38	16	54
Reclassifications	–	–	–
Translation differences	14	55	69
At December 31, 2000	**629**	**3,058**	**3,687**

Accumulated amortization

	Patents/Licenses	Goodwill	Total
At January 1, 2000	**337**	**523**	**860**
Changes in the Group/acquisitions	1	7	8
Amortization 2000	59	183	242
Disposals	36	13	49
Reclassifications	–	–	–
Translation differences	12	12	24
At December 31, 2000	**373**	**712**	**1.085**
Book values (net) at December 31, 2000	**256**	**2,346**	**2,602**
Book values (net) at December 31, 1999	**171**	**1,940**	**2,111**

(2) Property, plant and equipment

The values of property, plant and equipment have changed as follows:

Cost

	Land, land rights and buildings	Plant and machinery	Other factory and office equipment	Payments on account and assets in course of construction	Total
At January 1, 2000	**1,932**	**3,745**	**1,023**	**146**	**6,846**
Changes in the Group/acquisitions	122	178	39	6	345
Additions	60	151	123	131	465
Disposals	71	170	109	3	353
Reclassifications	27	76	4	– 107	–
Translation differences	26	59	2	– 4	83
At December 31, 2000	**2,096**	**4,039**	**1,082**	**169**	**7,386**

Accumulated depreciation

	Land, land rights and buildings	Plant and machinery	Other factory and office equipment	Payments on account and assets in course of construction	Total
At January 1, 2000	**848**	**2,649**	**742**	**1**	**4,240**
Changes in the Group/acquisitions	32	126	30	–	188
Write-ups	–	1	–	–	1
Depreciation 2000	69	230	132	1	432
Disposals	39	156	99	–	294
Reclassifications	1	10	– 10	– 1	–
Translation differences	9	43	– 2	–	50
At December 31, 2000	**920**	**2,901**	**793**	**1**	**4,615**
Book values (net) at December 31, 2000	**1,176**	**1,138**	**289**	**168**	**2,771**
Book values (net) at December 31, 1999	**1,084**	**1,096**	**281**	**145**	**2,606**

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

Cost figures are shown net of investment grants and allowances.

Depreciation is charged over the same periods of useful life as before, as shown in the table on page 53. Assets of low value are written off in full in the year when they are acquired. Scheduled depreciation of 407 million euro was charged on property, plant and equipment in 2000 (1999: 380 million euro) plus unscheduled depreciation of 25 million euro (1999: 61 million euro) – see also the depreciation table on page 48.

Assets held by the Group under the terms of finance leases are included in property, plant and equipment at a total value of 31 million euro. They are included at the present value of the lease payments. The commitments for future payments are shown as liabilities.

(3) Financial assets

Financial fixed assets are shown at cost or at their lower actual value where applicable. Our associates The Clorox Company and Ecolab Inc. are accounted for by the equity method in the consolidated financial statements at the appropriate proportion of their net assets.

We calculate our percentage shareholding on the basis of shares outstanding. The updated net asset figure is translated at the mid rate of exchange in force on the balance sheet date. The stock market value of our participations accounted for at equity amounted to 3,894 million euro at December 31, 2000 (1999: 4,415 million euro).

The total values of financial assets have changed during the year as follows:

Cost

	Affiliated companies	Shares in associated companies	Other investments	Total
At January 1, 2000	**38**	**685**	**68**	**791**
Changes in the Group/acquisitions	– 21	–	–	– 21
Additions	14	68	30	112
Disposals	–	–	3	3
Reclassifications	–	–	–	–
Translation differences	–	46	–	46
At December 31, 2000	**31**	**799**	**95**	**925**

Accumulated write-downs

	Affiliated companies	Shares in associated companies	Other investments	Other
At January 1, 2000	**4**	**–**	**–**	**4**
Changes in the Group/acquisitions	– 2	–	–	– 2
Write-ups	–	–	–	–
Write-downs 2000	–	–	1	1
Disposals	–	–	–	–
Reclassifications	–	–	–	–
Translation differences	–	–	–	–
At December 31, 2000	**2**	**–**	**1**	**3**
Book values (net) at December 31, 2000	**29**	**799**	**94**	**922**
Book values (net) at December 31, 1999	**34**	**685**	**68**	**787**

(4) Inventories

Inventories are valued at purchase or manufacturing cost, using FIFO and the average method. Any valuations which are too high compared with lower market values at the balance sheet date are marked down to the appropriate level accordingly. Manufacturing cost includes, in addition to direct costs, appropriate proportions of overheads (e.g. the goods inwards department, raw materials store, filling and other costs prior to the finished product store) and administrative expenses and pension costs attributable to the production process, as well as depreciation charges. Interest charges incurred during the period of manufacture, on the other hand, are not included. Inventories included in the balance sheet at their lower net realizable value (which in the case of finished products is derived from their market value) totaled 66 million euro at December 31, 2000 (1999: 60 million euro).

Breakdown of inventories

	Dec. 31, 1999	**Dec. 31, 2000**
Raw materials and supplies	456	535
Work in process	180	168
Finished products and merchandise	861	999
Payments on account of merchandise	8	9
	1,505	**1,711**

(5) Trade accounts receivable

Specific risks associated with trade accounts receivable are covered by appropriate valuation allowances. In addition, Group regulations require an allowance of at least 50 percent to be provided on third party accounts which are 90 days overdue, whilst accounts which are 180 days overdue are provided for in full. A total of 24 million euro has been provided in the form of valuation allowances (1999: 45 million euro).

(6) Other receivables and miscellaneous assets

	Dec. 31, 1999	**Dec. 31, 2000**
Accounts receivable from affiliated companies	6	5
(including those with a residual term of more than 1 year)	(–)	(–)
Accounts receivable from other companies in which participations are held	10	11
(including those with a residual term of more than 1 year)	(–)	(–)
Miscellaneous assets	386	546
(including those with a residual term of more than 1 year)	(85)	(154)
Deferred charges	45	60
	447	**622**

Other receivables and miscellaneous assets are shown at their full nominal value. Any risks associated with them are covered by valuation allowances. Miscellaneous assets comprise mainly the following:

– claims for tax refunds 91 million euro (1999: 91 million euro);
– amounts receivable from employees 26 million euro (1999: 22 million euro);
– amounts receivable from suppliers 33 million euro (1999: 25 million euro);
– insurance claims 13 million euro (1999: 10 million euro);
– security and guarantee deposits 17 million euro (1999: 27 million euro); and
– payments made on account 26 million euro (1999: 26 million euro).

The debt discount (6 million euro) included in deferred charges is written off on a scheduled basis each year over the term of the underlying liability.

(7) Liquid funds and marketable securities

	Dec. 31, 1999	Dec. 31, 2000
Liquid funds	131	142
Marketable securities	10	13
	141	**155**

The marketable securities are valued at quoted market prices. Price movements are recognized in the statement of income under financial items.

(8) Deferred tax assets

This heading comprises deferred tax assets taken over from the individual company balance sheets, resulting from the following factors:

– timing differences between the balance sheet valuation of an asset or liability and its tax base;
– tax losses carried forward which are expected to be reversed; and
– consolidation procedures at Group level.

The allocation of deferred tax assets to the various balance sheet headings is shown under Note 33 (Taxes on income)

Shareholders’ equity

The equity of the Henkel Group consists of the subscribed capital, capital reserve, revenue reserves, unappropriated profit and currency differences on translation.

Equity excluding minority interests

	Ordinary shares	Preferred shares	Capital reserve	Revenue reserves	Unappro-priated profit	Translation differences	Total
At January 1, 2000	**222**	**152**	**652**	**2,028**	**131***	**– 237**	**2,948**
Earnings after minority interests	–	–	–	–	468	–	468
Allocation to reserves	–	–	–	311	– 311	–	–
Buy-back of shares	–	–	–	– 63	–	–	– 63
Other changes	–	–	–	– 44	–	–	– 44
Exchange rate differences	–	–	–	–	–	+ 45	+ 45
Distributions	–	–	–	–	– 131	–	– 131
At December 31, 2000	**222**	**152**	**652**	**2,232**	**157**	**– 192**	**3,223**

* total dividend payout proposed by Henkel KGaA for 1999

(9) Subscribed capital

	Dec. 31, 1999	Dec. 31, 2000
Ordinary bearer shares	222	222
Preferred bearer shares	152	152
Capital stock	374	**374**

Divided into:
86,598,625 ordinary shares
59,387,625 preferred shares*

* 992,680 preferred shares bought back in 2000

At the Annual General Meeting held on June 3, 1996, the personally liable members were authorized to increase the capital of the Company in one or more instalments at any time up to June 3, 2001, by up to a total of 26 million euro. Any such increase has to be approved both by the Supervisory Board and by the Shareholders' Committee. The new capital will be issued in the form of non-voting preferred shares paid up in cash.

A resolution of shareholders adopted at the Annual General Meeting held on April 28, 1997, approved a conditional increase of 5 million euro in the Company's capital in the form of two million non-voting preferred bearer shares. The conditional increase will only be implemented to the extent that the holders of option rights attached to convertible warrant bonds to be issued by Henkel KGaA up to April 27, 2002, exercise those rights.

At the Annual General Meeting of Henkel KGaA held on May 4, 1998, a resolution was approved to change the classification of the capital stock from par-value shares to no-par-value shares to prepare for the introduction of the euro from 1999 onwards.

At the Annual General Meeting held on May 8, 2000, the personally liable managing members were authorized to purchase ordinary or preferred shares of the Company not exceeding 10 percent of the capital stock, i.e. up to 14,598,625 shares, at any time up to November 8, 2001.

The personally liable managing members were authorized – subject to the approval of the Shareholders' Committee and of the Supervisory Board – to dispose of the shares, without first offering them to existing shareholders, by (i) offering and transferring them to members of the Management Board and certain executive management personnel of certain affiliated companies in Germany and abroad under the terms of the "Stock Incentive Program of the Henkel Group" described below, or (ii) selling them to third parties for the purpose of acquiring businesses, parts of businesses or participating interests in businesses or for forming business combinations. Insofar as members of the Management Board of the Company are among those eligible to participate in the Stock Incentive Program, the Shareholders' Committee is authorized – subject to the approval of the Supervisory Board – to arrange the offer and transfer of the shares.

The personally liable members were also authorized – subject to the approval of the Shareholders' Committee and of the Supervisory Board – to cancel the treasury shares without any further resolution in General Meeting being required.

992,680 of the Company's preferred shares have been bought back during the year under review at an average price of 63.08 euro each.

(10) Capital reserve

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

(11) Revenue reserves

The revenue reserves amount to 2,232 million euro. They include:

- amounts allocated in the financial statements of Henkel KGaA in previous years;
- amounts allocated from consolidated net earnings of the Group;
- the earnings of consolidated companies less the interests of minority shareholders therein;
- changes in consolidation items and in the composition of the Group which affect earnings;
- the effects of conversion to the euro.

(12) Currency translation differences

Differences on translation of the annual financial statements of foreign companies are shown under a separate equity heading. Owing to the exchange rate strength of the US dollar, the Japanese yen and the British pound, the total under this heading at December 31, 2000 was 45 million euro less (1999: 133 million euro less) than at the end of the previous year.

(13) Minority interests

This heading comprises for the most part Ecolab Inc.'s share in the Henkel-Ecolab companies as well as partners' shares in a number of companies included in the consolidation, primarily in Asia. This heading comprises for the most part Ecolab Inc.'s share in the Henkel-Ecolab companies as well as partners' shares in a number of companies included in the consolidation, primarily in Asia.

(14/15) Provisions for pension and similar obligations / Other provisions

Changes

	Balance Jan. 1, 2000	Special circumstances	Utilized	Released	Allocated	**Balance Dec. 31, 2000**
Provisions for pension and similar obligations	1,871	25	78	4	170	**1,984**
Tax provisions	354	4	243	12	133	236
Sundry provisions	805	18	732	53	802	840
	1,159	22	975	65	935	**1,076**

Employees in the Henkel Group have different forms of retirement benefit plans depending on the legal, financial and tax regime in each country.

Provisions for pension and similar obligations have been calculated at the present value of the future obligations (the projected unit credit method). This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account. For Germany the calculation is based on trends of 3.0 percent (1999: 3.0 percent) for wages and salaries, 1.5 percent (1999: 1.5 percent) for retirement benefits, and a discount rate of 6 percent (1999: 6 percent). In other countries the equivalent factors depend on local conditions in the country concerned.

The Group's pension and similar obligations are made up as follows:

Breakdown of pension and similar obligations

	Germany	USA	Rest of world	**Total**
Present value of obligations not covered by fund assets	1,618	166	126	1,910
Present value of obligations covered by fund assets	64	503	135	702
	1,682	669	261	**2,612**
Market value of fund assets	– 42	– 435	– 133	– 610
Miscellaneous	–	+ 1	–	+ 1
	1,640	235	128	**2,003**
Unrecognized actuarial gains/losses	– 50	+ 24	+ 7	– 19
Provisions for pension and similar obligations	1,590	259	135	**1,984**

Sundry provisions

	Dec. 31, 1999	Dec. 31, 2000
Sales and marketing	177	184
Personnel	236	265
Production and technology	106	98
Administration	286	293
	805	840

Actuarial gains and losses which do not exceed 10 percent of the present value of the obligations are not recognized in the financial statements. Those in excess of 10 percent at the end of the previous reporting period are spread over the average remaining working lives of the employees concerned (subject to a maximum of 10 years).

A total of 110 million euro has been included in pension costs (Note 37 below) and 110 million euro in financial items (Note 32).

The "Special circumstances" column comprises the effects of changes in the composition of the Group and exchange rate fluctuations.

The tax provisions comprise accrued tax liabilities and amounts set aside for the outcome of external tax audits and appeal proceedings.

The sundry provisions are in respect of identifiable potential liabilities towards third parties. They are costed in full and discounted to the balance sheet date if they include interest.

(16) Provisions for deferred tax liabilities

The amounts under this heading are in respect of differences between valuations in the consolidated balance sheet and the tax base used by the individual companies included in the consolidation to calculate their taxable profits. See also Note 33 below (Taxes on income).

(17) Borrowings

This heading includes all interest-bearing obligations of the Henkel Group outstanding at December 31, 2000. Notice has been given for the participating loans to be redeemed with effect from December 31, 2000, so they have been reclassified as other financial liabilities.

The main components under this heading are as follows:

Borrowings

	Dec. 31, 1999 Total	more than 5 years	Between 1 and 5 years	Residual term up to 1 year	Dec. 31, 2000 Total
Bonds	845	18	422	1,553	1,993
Participating certificates	19	–	9	5	14
Participating loans	67	–	–	–	–
Loans from employee welfare funds of the Henkel Group	29	–	18	9	27
(including amounts secured)	(–)	–	–	–	(–)
Bank loans and overdrafts	550	21	36	409	466
(including amounts secured)	(25)	–	–	–	(20)
Other financial liabilities	405	9	100	354	463
	1,915	48	585	2,330	2,963

Bonds represent the largest single item of borrowings. The main bonds are as follows:

Bonds

issued by	Type	Denominated	Equivalent value in EUR mill.	Interest rate	Interest fixed
Henkel KGaA	Bond	CHF	127	3.5000	to 2001 [1]
Henkel Corporation	Convertible bond	DEM	77	2.0000	to 2003 [1]
Henkel Corporation	Eurobonds	DEM	153	5.3750	to 2004 [1]
Henkel Corporation	Commercial Paper Program	USD	1,068	6.6984	1–3 months [2]
Henkel KGaA	Commercial Paper Program	EUR	152	4.9239	1–6 months [2] [3]
Henkel KGaA	Commercial Paper Program	GBP	137	5.9424	1–6 months [2] [3]
Henkel KGaA	Commercial Paper Program	USD	70	6.6096	1–3 months [2] [3]
Henkel Coordination Center BE	Registered money market claim	EUR	56	4.7574	1–6 months
Henkel Coordination Center BE	Registered money market claim	CHF	34	3.1618	1–6 months [4]

[1] hedged by cross currency swap

[2] partly hedged by interest rate swaps

[3] multi-currency program; foreign currencies partly hedged by currency swaps

[4] foreign currency hedged by currency swaps

The convertible bond of 77 million euro issued by Henkel Corporation includes a call option. During the period from June 12, 2000 to May 23, 2003 the holder can have the bond converted into preferred shares of Henkel KGaA. The conversion obligation has been transferred to one of the Group's banks.

Other financial liabilities include finance bills and interest-bearing loans from suppliers and other third parties.

The bonds include a convertible warrant bond issued on July 1, 1998 and a similar bond issued on July 1, 1999, each for the equivalent of 1 million euro. These are in connection with the introduction of a Stock Incentive Program for executive management personnel which was approved at the Annual General Meeting of Henkel KGaA held on April 28, 1997. Under the option terms of the warrants the executives included in this stock incentive program have the right to acquire new preferred shares of Henkel KGaA. The subscription prices depend on relative performance, i.e. the share price performance of Henkel's preferred shares compared to that of the DAX German equities index. Dividends paid out to shareholders, pre-emptive rights and other adjustments to capital affecting the quoted price of Henkel’s preferred shares are taken into account in calculating performance.

If the final calculation shows that no outperformance has been achieved, the subscription rights are canceled. No liabilities are shown in the consolidated balance sheet nor in the balance sheet of Henkel KGaA at December 31, 2000 for the option warrants issued under the stock incentive program to date.

The Stock Incentive Program applies to about 200 executive management personnel in the Henkel Group.

As Henkel's preferred shares did not outperform the DAX index in the second half of 2000, the subscription rights attached to the bond issued in July 1998 have lapsed as worthless. The rights attached to the bond issued in July 1999 cannot be exercised until the first stock exchange trading day following the Annual General Meeting of Henkel KGaA to be held in 2002.

Option rights under the program in force since 1997

	Management Board	Other executive personnel	Total beneficiaries
At January 1, 2000	**123,090**	**578,372**	**701,462**
Lapsed at December 31, 2000	71,070	294,872	365,942
At December 31, 2000	**52,020**	**283,500**	**335,520**

Option rights under the Stock Incentive Program introduced in 2000

	Management Board	Other executive personnel	Total beneficiaries
Granted in 2000	4,380	111,750	116,130
At December 31, 2000	**4,380**	**111,750**	**116,130**

The objective of the Stock Incentive Program introduced in 2000 is to enable around 900 senior executive personnel around the world to share in the rise in the Henkel share price and thereby have a direct interest in the increasing value of the Company. Participants in the scheme will be granted option rights with a term of up to 5 years to subscribe for Henkel preferred shares. The program involves an annual issue on a revolving basis, the relevant terms being revised each year by the Management Board and Shareholders' Committee.

The exact number of shares which can be bought with an option depends on at least one of two performance targets being met. One of the targets is based on absolute performance (the performance of the Henkel preferred share price) and the other on relative performance (comparing the performance of Henkel's preferred shares with the Dow Jones Stoxx index).

The aggregated value of each option at the balance sheet date was 151.03 euro, valuing the options granted to members of the Management Board at 661 thousand euro and those granted to other executive personnel at 16,877 thousand euro.

(18) Trade accounts payable

The liabilities under this heading are all due for payment within a year.

(19) Other liabilities

	Dec. 31, 1999			Residual term	**Dec. 31, 2000**
	Total	more than 5 years	between 1 and 5 years	up to 1 year	**Total**
Accounts payable to affiliated companies	30	–	–	17	17
Accounts payable to other companies in which participations are held	13	–	–	15	15
Liabilities in respect of taxation	98	–	–	115	115
Liabilities in respect of social security	41	–	–	46	46
Sundry liabilities including deferred income	278	29	19	301	349
(including amounts secured)	(–)				(–)
	460	29	19	494	**542**

Sundry liabilities include: liabilities to customers 25 million euro (1999: 23 million euro), commission payable 17 million euro (1999: 12 million euro), payroll taxes etc. for employees 39 million euro (1999: 29 million euro), liabilities towards employees 108 million euro (1999: 73 million euro) and advance payments received 5 million euro (1999: 6 million euro).

(20) Contingent liabilities

	Dec. 31, 1999	**Dec. 31, 2000**
Bills and notes discounted	14	9
Liabilities under guarantees and warranty agreements	8	3
Collateral	1	3

(21) Other financial commitments

The amounts shown are the nominal values.

Payment obligations under rent, leasehold and leasing agreements are shown at the total amount payable up to the earliest date when they can be terminated. Together with order commitments for property, plant and equipment, the consolidated total for the Group at the end of 2000 was 404 million euro.

Payment commitments under the terms of agreements for capital increases and share purchases signed prior to December 31, 2000 amounted to 47 million euro.

(22) Financial derivatives

at December 31	1999	Principal amounts 2000	1999	Market values 2000
Forward exchange contracts	1,260	2,058	– 27	18
(proportion for hedging financing arrangements within the Group)	(906)	(1,611)	(– 23)	(22)
Currency options	61	–	0	–
Cross currency swaps	357	357	– 13	– 41
Interest rate hedging instruments	774	690	1	– 6
	2,452	**3,105**	– 39	**– 29**

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 solely for hedging purposes. Instruments quoted in financial markets and those traded elsewhere are both used, all of which can be simulated and evaluated by our own computer systems. The currency hedging contracts comprise forward exchange contracts and currency options. Interest rate hedging contracts include interest rate swaps and combined interest rate/currency swaps (cross currency swaps).

Notional principal amounts are only netted against balancing contracts when such contracts match exactly in scope, nature and maturity and have been entered into with one and the same bank. The market values with a negative total of 29 million euro have been arrived at by valuing the open contracts at market prices at the balance sheet date. All interest rate hedging instruments are valued together with the underlying internal and external financing arrangements of the Group, so no provisions are necessary.

Most of the forward exchange contracts are hedging instruments matching the amount and maturity of financing arrangements within the Group. Provisions are not necessary for these either. The remaining forward exchange contracts and the currency options provide forward exchange cover for receipts and payments in foreign currency in respect of sales and purchases of goods. Forward exchange contracts and currency options are generally for less than a year.

Prudent management of interest rate exposure is an important objective of our financial policy in the context of asset and liability management. Against this background we have arranged part of the underlying borrowing requirements of the Henkel Group at long-term fixed interest rates. In addition, loans originally at variable rates of interest have been converted by derivative instruments into loans at fixed rates of interest, where this meant that costs could be saved by comparison with alternative forms of finance at the time when the transaction was concluded. The negative market values of the cross currency swaps are counterbalanced by corresponding positive market values of the underlying bond instruments.

All the relevant activities are centrally coordinated by the Corporate Treasury department. Treasury control, settlement and accounting are kept physically and organizationally separate from the trading function.

All counterparties are German and international banks of the highest standing. The credit rating and performance of our counterparties are kept constantly under review.

The following interest rates have been fixed by using cross currency swaps and interest rate hedging instruments:

Interest rates

	Notional principal amount expressed in million euro	Average remaining period to maturity in years	Average interest rate %
DEM	228	1.0	5.2
FRF	46	2.8	6.0
USD	773	2.2	6.5

Notes to the Statement of Income

(23) Sales

A breakdown of sales by business sector and geographical region compared with the previous year is shown in the tables on pages 46 and 47.

(24) Cost of sales

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

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

(25) Marketing, selling and distribution costs

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

(26) Research and development costs

This heading comprises the costs of research and of product and process development. Research as well as development costs were expensed in full as incurred.

(27) Administrative expenses

This heading includes the personnel and non-personnel costs of the administration departments, and miscellaneous taxes.

(28) Other operating income

The increase in other operating income in 2000 is attributable in particular to gains from the sale of trademark rights and from the divestment of activities as part of the process of streamlining our business portfolio.

Other operating revenue includes income not relating to the period under review, insurance claims, foreign exchange gains from operating activities, and refunds.

	1999	**2000**
Gains on disposal of fixed assets	31	60
Income from release of provisions	32	36
Income from release of bad debt reserves	4	4
Other operating revenue	79	114
	146	**214**

(29) Other operating charges

Other operating charges include amounts provided for services to be rendered to customers under guarantee and for the sake of customer goodwill, for leasehold payments, and for foreign exchange losses incurred in connection with operating activities. In the year under review and in the previous year the figures under this heading also include contributions to the compensation fund set up by German industry for the victims of forced labor.

(30) Amortization of goodwill

The increase in the amortization charge on goodwill is mainly due to acquisitions, but also to exchange rate movements.

(31) Restructuring costs

This heading comprises the expense of early retirement schemes and of plant or business closures either already effected or approved and announced.

(32) Financial items

Net income from participations

	1999	2000
Net income from participations	91	**156**

The above figures include special charges of 36 million euro in 1999 and 3 million euro in 2000 in connection with our participation in The Clorox Company. These figures represent Henkel's share of the cost of restructuring the First Brands acquisition (treated by Clorox as an extraordinary item in its own financial statements).

Net result from other participations

	1999	2000
Income from participations		
in affiliated companies	–	–
in other companies	4	7
Income from profit and loss transfer agreements	1	1
Gains on disposal of financial assets and marketable securities	1	4
Write-downs on financial assets and marketable securities	– 1	– 1
	5	**11**

Net interest expense

	1999	2000
Interest and similar income		
from affiliated companies	–	–
from others	16	16
Other financial income	17	21
Interest charges payable		
to affiliated companies	– 7	– 9
to others	– 151	– 184
Other financial charges	– 44	– 35
Interest element of amounts allocated to pension provisions	– 92	– 110
	– 261	**– 301**
Financial items (net)	– 165	**– 134**

(33) Taxes on income

Earnings before tax

	1999	2000
Domestic companies	68	– 5
Foreign companies	624	821
	692	**816**

Tax breakdown

	1999	2000
Current taxes		
Domestic companies	108	86
Foreign companies	169	248
	277	**334**
Deferred taxes		
Domestic companies	36	6
Foreign companies	– 25	– 29
	288	**311**

German corporation tax legislation applies a split rate of tax and an imputation system for levying tax on the income of a company and its shareholders. When profits are distributed, shareholders who are subject to tax in Germany receive a tax credit equal to the taxes which the company has paid on the profits distributed. The company receives a tax refund equal to the amount by which the profits distributed were originally subject to a corporation tax charge of more than 30 percent. The tax refund can also be distributed to shareholders.

A number of changes to German corporation tax legislation are coming into effect from the beginning of 2001. The imputation system in force up to the end of 2000, with split tax rates on distributed and undistributed profits, is being replaced by a new system under which shareholders will be taxed on only half their dividend income and companies will pay a fixed tax rate of 25 percent plus a solidarity surcharge (currently 5.5 percent). The main effect of these changes for the Company is that the deferred tax balances brought forward at the beginning of the year have to be recalculated taking the reduced tax rates into account.

The effect of the recalculation is a reduction of 19 million euro in the tax payable by the Group's domestic companies.

Allocation of deferred taxes

		Deferred tax assets		Deferred tax liabilities
	Dec. 31, 1999	**Dec. 31, 2000**	Dec. 31, 1999	**Dec. 31, 2000**
Patents/Licenses	74	66	3	5
Goodwill	9	23	19	12
Property, plant and equipment	15	15	177	146
Financial assets	11	3	27	35
Inventories	25	30	17	18
Other receivables and miscellaneous assets	67	20	6	26
Special tax-allowable items	0	0	195	149
Provisions	306	261	8	3
Liabilities	45	44	79	4
Tax credits	11	7	0	0
Loss carry-forwards	29	33	0	0
	592	**502**	531	**398**
Amounts netted	– 347	– 198	– 347	– 198
Valuation allowances	– 8	– 7	–	–
Balance sheet figures	237	**297**	184	**200**

The amounts netted represent tax assets and liabilities relating to the same tax authority.

The deferred tax assets recognized in respect of financial assets relate to special tax-allowable write-downs made by individual companies. The deferred tax liabilities in respect of financial assets relate primarily to the participations valued at equity in The Clorox Company and Ecolab Inc.

The deferred tax balances in respect of special tax-allowable items have been recognized mainly in the financial statements of domestic companies and relate for the most part to valuation allowances on property, plant and equipment and to tax-allowable reinvestment reserves.

The deferred tax balances recognized by domestic and foreign companies in respect of provisions relate mainly to pension and similar obligations.

Expiry dates of unused tax loss carry-forwards

	Dec. 31, 1999	**Dec. 31, 2000**
Must be utilized within:		
1 year	16	20
2 years	19	35
3 years	33	33
more than 3 years	104	147
Carry-forward without restriction	123	140
	295	**375**

The valuation allowances apply to the loss carry-forwards. The change in the amount of valuation allowances is due to a reassessment by management of the likelihood that unused tax losses will be utilized in the future. Any assessment of whether deferred tax assets can be recognized in the long term depends on estimating the probability that the amounts in question can actually be realized in future. The level of probability must be more than 50 percent and the estimate must be supported by appropriate business plans. Deferred tax assets have not been recognized in respect of loss carry-forwards amounting to 281 million euro (1999: 197 million euro) because they are not expected to be realized.

Calculation of effective tax rate

	1999	2000
Earnings before tax	692	816
Tax rate (incl. municipal trade tax) on income of Henkel KGaA in %	45	45
Estimated tax charge	311	367
Lower taxes abroad	– 59	– 107
Tax reductions owing to tax-free income and other items	– 58	– 63
Tax increases owing to non-deductible expenses and other items	94	114
Total tax charge	288	311
Effective tax charge in %	41.6	38.1

(34) Minority interests

The amount shown here represents the share of profits and losses attributable to other shareholders. The share of profits amounted to 63 million euro (1999: 58 million euro) and of losses to 26 million euro (1999: 18 million euro).

(35) Depreciation and amortization expense

	1999	2000
Scheduled depreciation and amortization on property, plant and equipment and intangible assets	586	639
Unscheduled depreciation and amortization on property, plant and equipment and intangible assets	67	35
Write-downs on financial assets	1	1
	654	675

The increase in scheduled depreciation compared with the comparable figure for the previous year is mainly due to the acquisitions made in 2000.

Unscheduled depreciation is charged if an adjustment in value is indicated owing to the closure, relocation or technological obsolescence of production plant or a reduction in capacity to match the current workload.

(36) Cost of materials

	1999	2000
Cost of raw materials and supplies and of goods purchased for resale	4,359	4,884
Cost of outside services	290	311
	4,649	5,195

(37) Payroll costs

	1999	2000
Wages and salaries	1,848	2,077
Social security contributions and social assistance	369	416
Pension costs	101	110
	2,318	2,603

(38) Employee numbers

Annual average excluding apprentices, work experience students and trainees.

	1999	2000
Production and technology	25,246	26,945
Marketing, sales and distribution	17,492	18,669
Research, development and application engineering	3,810	4,038
Administration	10,072	10,823
	56,620	60,475

(39) Value added statement

	1999	%	2000	%
Net sales/Other income	11,641	100.0	13,189	100.0
– Cost of materials	4,649	39.9	5,195	39.4
– Fixed asset depreciation/write-ups	652	5.6	674	5.1
– Other expense	2,986	25.7	3,502	26.5
= Value added	3,354	28.8	3,818	29.0
Shared between				
Employees	2,318	69.1	2,603	68.2
Government	336	10.0	380	10.0
Providers of capital	296	8.8	330	8.6
Shareholders	131	4.0	157*	4.1
Minority interests	40	1.2	37	1.0
Retained in the business	233	6.9	311	8.1

* proposed

(40) Reconciliation between net operating assets/capital employed and balance sheet figures

	Net operating assets		Balance sheet figures	
	Annual average* 2000	Dec. 31, 2000	Dec. 31, 2000	
Goodwill	2,175	2,346	2,346	Goodwill
Other intangible assets and property, plant and equipment (total)	2,892	3,027	3,027	Other intangible assets and property, plant and equipment (total)
	–	–	922	Financial assets
	–	–	297	Deferred tax assets
Inventories	1,613	1,711	1,711	Inventories
Trade accounts receivable from third parties	2,261	2,302	2,302	Trade accounts receivable
Intra-Group trade accounts receivable	649	801	–	
Other receivables and miscellaneous assets **	358	524	622	Other receivables and miscellaneous assets
	–	–	155	Liquid funds/Marketable securities
Operating assets (gross)	**9,948**	**10,711**	**11,382**	**Total assets**
– Operating liabilities, including:	2,890	3,050	–	
Trade accounts payable to third parties	1,119	1,117	1,117	Trade accounts payable
Intra-Group trade accounts payable	649	801	–	
Other provisions and liabilities **	1,122	1,132	1,618	Other provisions and liabilities
Net operating assets	**7,058**	**7,661**	–	
Goodwill at book values	2,175	2,346	–	
Goodwill at cost	2,797	3,058	–	
Capital employed	**7,680**	**8,373**	–	

* the annual average is based on 12 monthly figures

** only amounts relating to operating activities are taken into account for calculating net operating assets

(41) Information on earnings per share

	1999	2000
Earnings after minority interests	364	468
Dividends paid or proposed		
– on ordinary shares	76	92
– on preferred shares	55	65
Profit retained	233	**311**
Number of ordinary shares	86,598,625	86,598,625
EPS in euro	2.47	**3.20**
Number of preferred shares	59,387,625	58,849,923*
EPS in euro	2.53	**3.25**

* weighted annual average of preferred shares (buy-back program)

The stock incentive program (see Note 17) does not currently result in any dilution in earnings.

(42) Supplementary information on the cash flow statement

The acquisitions figure for 2000 comprises purchase price payments of 846 million euro (1999: 79 million euro) plus borrowings of 104 million euro taken over (1999: 2 million euro), less cash and cash equivalents of 23 million euro taken over (1999: 5 million euro).

The change in borrowings relates to the Commercial Paper Program and long-term debt.

(43) Related party transactions

Information required by § 160(1), no. 8, of the German Corporation Act (AktG).

In a letter dated February 27, 2001 the Company has been notified that since May 12, 2000 a total of 49,246,910 voting rights, representing in total 56.87 percent of the voting rights in Henkel KGaA, are held by:

- 63 members of the families of the descendants of Fritz Henkel, the Company's founder
- 2 foundations set up by members of those families
- 1 civil law partnership set up by members of those families
- 7 private limited companies set up by members of those families

under the terms of an agreement restricting the transfer of shares as envisaged in § 22(1), no. 3, of the German Securities Trading Law (WpHG), whereby, in accordance with § 22(1), no. 2 WpHG, the voting rights held by the 7 private limited companies, representing 6.54 percent of the voting capital of Henkel KGaA, are attributed to the members of those families who control these companies, and

- Jahr Vermögensverwaltung GmbH & Co. KG, based in Hamburg, which has

undertaken, under the terms of an agreement concluded with the parties to the

Henkel agreement restricting the transfer of shares, to exercise its voting rights at the Annual General Meeting of Henkel KGaA in concert with the parties to the Henkel agreement restricting the transfer of shares whenever the latter have decided to cast all their votes in the same way. Under § 22(1), no.3, of the WpHG this agreement means that the voting rights in Henkel KGaA held by the parties to the Henkel agreement restricting the transfer of shares and by Jahr Vermögensverwaltung GmbH & Co. KG are attributable to each other.

Jahr Vermögensverwaltung GmbH & Co. KG holds 4,530,000 ordinary shares in Henkel KGaA (representing 5.23 percent of the voting capital of Henkel KGaA), thereby exceeding the threshold of 5 percent of the total voting rights in Henkel KGaA, as does Christoph Henkel with voting rights attached to 5,044,139 ordinary shares in Henkel KGaA (representing a corresponding percentage of 5.825 percent). No other party to the agreement restricting the transfer of shares has 5 percent or more of the total voting rights in Henkel KGaA, even after adding voting rights expressly granted under the terms of usufruct agreements.

(44) Information required by § 292a HGB

The conditions required by § 292a (1) of the German Commercial Code (HGB) for Henkel KGaA's consolidated financial statements to be drawn up in accordance with International Accounting Standards (IAS) are fulfilled.

The only accounting policies applied by Henkel which are different from those required under German company law are insignificant in amount and relate to:

- the recognition of translation differences in the statement of income; and
- the recognition as an asset of tax losses carried forward.

Consolidated net earnings have been only marginally increased by currency translation differences taken to income as a result of foreign currency receivables and payables being translated at the closing year-end rates of exchange.

The benefits of tax losses carried forward are recognized as deferred tax assets in accordance with prudent commercial judgment only if there is evidence on the basis of business plans or tax planning calculations that they will be utilized.

(45) Emoluments of corporate management

The total emoluments paid to members of the Supervisory Board for the fiscal year 2000 (including value added tax taken over) amounted to 409 thousand euro (1999: 409 thousand euro.

The total of 1,750 “value creation rights” issued to members of the Supervisory Board were valued at 2.04 euro each as at the balance sheet date and are treated as remuneration at the value attributable to them when they are redeemed. The members of the Shareholders’ Committee received remuneration totaling 1,128 thousand euro in the year under review (1999: 1,074 thousand euro). The total of 2,200 value creation rights issued to members of the Shareholders’ Committee are valued in the same way as outlined above.

The personally liable managing members received remuneration totaling 8,248 thousand euro in the year under review (1999: 8,557 thousand euro). The figure for the year under review includes 661 thousand euro in respect of the 4,380 option rights granted to members of the Management Board under the terms of the stock incentive program introduced in 2000 (see Note 17).

37,305 thousand euro (1999: 34,083 thousand euro) 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 4,848 thousand euro (1999: 3,875 thousand euro).

Amounts totaling 120 thousand euro were repaid during the year under review on loans advanced to members of the Management Board in previous years. Loans outstanding at the end of 2000 shown under the heading “Miscellaneous assets” amounted to 248 thousand euro. The loans, some of which are secured by mortgages, have residual terms of up to 2 1/2 years and are subject to interest at the base rate of the European Central Bank, with a maximum of 5.5 percent.

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

The personally liable managing members, the Shareholders' Committee and the Supervisory Board recommend that the annual financial statements of Henkel KGaA be approved as presented.

The personally liable managing members, the Shareholders' Committee and the Supervisory Board recommend that the unappropriated profit of 157,196,880.90 euro for the year ended December 31, 2000 be applied as follows:

1. Payment of a dividend of 1.06 euro per ordinary share to which a tax credit of 0.37 euro is attached (on 86,598,625 shares ranking for dividend) = 91,794,542.50 euro.

2. Payment of a dividend of 1.12 euro per preferred share to which a tax credit of 0.40 euro is attached (on 58,394,945 shares ranking for dividend) = 65,402,338.40 euro.

That part of the dividend payable on treasury shares acquired after December 31, 2000 will be carried forward.

Düsseldorf,
February 27, 2001

The personally liable managing members of Henkel KGaA

Dr. Ulrich Lehner, President and CEO
Guido De Keersmaecker
Dr. Jochen Krautter
Dr. Klaus Morwind
Dr. Roland Schulz
Prof. Dr. Uwe Specht

The Shareholders' Committee

Albrecht Woeste
(Chairman)

Principal Subsidiary Companies

Europe

	Share of capital %	Sales EUR mill.	Sharehold-ers' equity EUR mill.	**Earnings before tax EUR mill.**	Employees Dec. 31 EUR mill.
Henkel-Ecolab Joint Venture Companies	50 % + 1 vote	939	236	91	4,769
Cognis Deutschland GmbH, Düsseldorf, Germany	100	1,190	101	86	2,102
Hans Schwarzkopf GmbH & Co. KG, Hamburg, Germany	100	116	124	34	405
Grünau Illertissen GmbH, Illertissen, Germany	100	139	43	11	482
Henkel Benelux Group, Brussels, Belgium, and Nieuwegein, Netherlands	100	376	396	32	897
Henkel France Group, Boulogne-Billancourt, France	100	693	175	54	1,351
Cognis France S.A., Ponthierry, France	100	231	56	25	539
Henkel Ltd., Hatfield, Great Britain	100	59	52	– 5	226
Henkel S.p.A., Milan, Italy	100	654	270	35	1,488
Henkel Central Eastern Europe Group, Vienna, Austria	100	722	246	60	4,295
Henkel Nordic Group, Stockholm, Sweden	100	156	63	4	525
Henkel & Cie AG, Pratteln, Switzerland	100	104	58	14	202
Henkel Ibérica Group, Barcelona, Spain	80	571	164	39	1,661
Türk Henkel Kimya Sanaryi A.S., Istanbul, Turkey	100	225	20	8	623
Cognis Turkey A.S., Istanbul, Turkey	100	103	40	– 2	276

Overseas

	Share of capital %	Sales EUR mill.	Sharehold-ers' equity EUR mill.	**Earnings before tax EUR mill.**	Employees Dec. 31
Henkel Mercosul Group, São Paulo, Brazil	100	204	174	1	1,165
Cognis Mexicana S.A., Ecátepec de Morelos, Mexico	100	56	32	7	306
Henkel of America Group, Gulph Mills, Pennsylvania, USA	100	1,198	486	167	3,332
Henkel Asia-Pacific Group, Hong Kong	100	1,130	551	16	8,872

Major Participations in Associated Companies

The Clorox Company, Oakland, California, USA

Product groups: Bleaching agents, household and automotive care products, processed foods, Brita water filters, cat litter products, charcoal, plastic bags and containers

Henkel owns 62.8 million shares in The Clorox Company, representing a participating interest of 26.6 percent. Henkel and Clorox also have a technology transfer agreement. The collaboration with Clorox extends to the exchange of formulations, marketing concepts and test methods. There is also a cooperation arrangement in some countries (mainly in Eastern Europe) for the production and marketing of household bleaching agents. The Clorox Company has a 20 percent shareholding in Henkel Ibérica S.A.

The integration of First Brands Corporation, which was taken over by Clorox at the beginning of 1999, was completed in fiscal 1999/2000 (accounting period to June 30, 2000). Key measures taken involved suspending inefficient pricing and sales promotion programs, streamlining production plants, and reducing the size of the First Brands product portfolio by 1,500 relatively unprofitable products. These measures produced cost savings of US$ 90 million. Sales revenue was up 2 percent at US$ 4,083 million. Net earnings rose by 60 percent to US$ 394 million compared with the previous year, which was severely affected by restructuring costs for First Brands. The shareholders' equity in the company at June 30, 2000 amounted to US$ 1,794 million.

In December 2000 The Clorox Company announced that restructuring costs amounting to US$ 150 – 200 million are expected to be incurred in the calendar year 2001.

For the first half of fiscal 2000/2001 (the six-month period to December 31, 2000) Clorox reported sales of US$ 1,884 million and half-year earnings of US$ 162 million, very much the same as in the previous year.

Clorox's share price went down by 29.5 percent in 2000. The market value of our participation as of December 31, 2000 amounted to US$ 2,231 million.

Ecolab Inc., St. Paul, Minnesota, USA

Product groups: Chemical products, appliances and dispensing systems for cleaning, washing, maintenance, sanitizing and disinfecting applications at major institutional and industrial customers, textile hygiene and products for vehicle care, water treatment and pest control

Henkel owns 32.2 million shares in Ecolab Inc., representing a participating interest of 25.4 percent. The European joint venture Henkel-Ecolab together with Ecolab Inc. and its activities in the USA and other regions outside Europe is world market leader in the field of industrial and institutional hygiene.

With effect from January 2, 2002, Henkel will transfer its 50 percent participation in the European joint venture Henkel-Ecolab to Ecolab Inc. This step will create a business with worldwide operations which will be better placed to meet the requirements of global customers. As consideration for transferring its share of the joint venture Henkel will have the option to receive either a cash payment or shares in Ecolab Inc. Current estimates indicate that the share in the joint venture will be worth between 520 and 560 million euro. If Henkel opts for Ecolab shares they will be valued at US$ 41.06 each, the actual number of shares transferred being subject to an upper limit of 13.2 million and a lower limit of 9.3 million. The existing joint venture agreement between Henkel and Ecolab Inc. will be amended as part of the transaction. Henkel will have an option to increase its interest in Ecolab Inc. to 35 percent, which would enable Henkel to claim an additional seat on the Board. When certain terms contained in the joint venture agreement have expired, Henkel will be able to present a takeover bid to Ecolab's Board of Directors.

Ecolab Inc.'s sales recorded 9 percent growth in fiscal 2000 to US$ 2,264 million. Operating earnings improved by 17 percent to US$ 206 million. The shareholders' equity in the company at the year end amounted to US$ 757 million.

The share price of Ecolab went up by 10.4 percent in 2000. The market value of our participation as of December 31, 2000 totaled US$ 1,392 million.

Management Statement

The personally liable managing members of Henkel KGaA are responsible for the content and accuracy of the information in the consolidated financial statements and, consistent with those statements, in the management report.

The consolidated financial statements have been prepared in conformity with the rules drawn up by the International Accounting Standards Committee, London.

Management has taken steps to ensure the integrity of the reporting process and compliance with the relevant legal regulations by establishing effective internal control systems at the companies which are included in the consolidated financial statements. Appropriate training is provided to make sure that the employees responsible are suitably qualified to meet the required standards. Staff training is centered around the Company's mission statement and principles and strategies developed within the Company. Compliance with these principles is monitored by management. The functional efficiency of internal control systems is kept under constant review by the internal audit department.

These measures, coupled with internal and external reporting procedures based on standard guidelines throughout the Group, ensure that the financial records properly reflect all business transactions. They also enable management to recognize changes in business circumstances and the ensuing risks to assets and financing arrangements as they occur. The risk management systems in place for Henkel KGaA and the Henkel Group ensure that any developments which could endanger the future of Henkel KGaA or of the Henkel Group are recognized in good time and appropriate measures taken accordingly. This also provides the foundation for the accuracy of information disclosed in the consolidated financial statements and Group management report and in the individual company financial statements incorporated therein.

Management is committed to delivering a steady increase in shareholder value.

The management of the Group is attuned to the interests of shareholders in full awareness of its responsibility towards employees, society and the environment in every country in which Henkel operates.

In accordance with a resolution adopted by shareholders at the Annual General Meeting, the Supervisory Board of Henkel KGaA has appointed KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft to audit the consolidated financial statements. The auditors' report is reproduced on the next page. The consolidated financial statements, the Group management report and the audit report are discussed in detail at a meeting of the Supervisory Board held for that purpose. The report of the Supervisory Board is reproduced on page 83.

Düsseldorf, February 27, 2001

The personally liable managing members of
Henkel KGaA

Auditors' Report

We have audited the consolidated financial statements prepared by Henkel KGaA for the year ended December 31, 2000, consisting of the consolidated balance sheet as of that date and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements. The preparation and content of the consolidated financial statements are the responsibility of the personally liable managing members of Henkel KGaA. Our responsibility is to express an opinion, based on our audit, as to whether the consolidated financial statements comply with International Accounting Standards (IAS).

We have conducted our audit of the consolidated financial statements in accordance with German audit regulations and the standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) generally accepted in Germany, having due regard also for International Standards on Auditing (ISA). Those standards require that we plan and perform the audit so as to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

Knowledge of the business activities and of the economic and legal environment in which the Henkel Group operates, together with the potential for possible errors, are taken into account in the determination of audit procedures. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles applied and significant estimates made by the personally liable managing members, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and of its cash flows for the year under review and comply with IAS.

Our audit, which included an examination of the Group management report prepared by the personally liable managing members, has revealed no grounds for objections. In our opinion the Group management report gives a true picture of the Group's position overall and a fair representation of the risks and uncertainties that may affect its future performance.

We confirm that the consolidated financial statements and Group management report for the year ended December 31, 2000 meet the requirements for exempting the Company from having to prepare consolidated financial statements and a Group management report under German company law.

Düsseldorf, February 27, 2001

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rüdiger Reinke	Michael Gewehr
(Wirtschaftsprüfer)	(Wirtschaftsprüfer)

Report of the Supervisory Board

During the course of fiscal 2000 the Supervisory Board has held regular meetings at which the Management Board has been monitored and supervised and given support and advice, as required by law and the Company's statutes. The Chairman of the Supervisory Board and the Chief Executive Officer of the Management Board have been in constant touch with each other to exchange views and ideas. The Management Board has kept the Supervisory Board fully informed about the business affairs of the Company by means of quarterly written reports and at four meetings of the Supervisory Board. The sales and earnings figures of the Henkel Group as a whole and of each business sector and geographical region have been reported on a regular basis. Detailed reports have also been received about the most important research activities and about new research projects undertaken jointly with other organisations.

Other matters discussed included:

- short-term and long-term corporate and financial planning;
- capital expenditure and acquisition projects; and
- regional and country-specific problems.

The Supervisory Board also considered:

- Henkel's business situation and future prospects in India;
- the revised situation and aims of the carve-out of Cognis;
- the future development of the global adhesives business following the acquisitions of Dexter (USA) and Multicore (GB);
- strategy and forward planning in the Surface Technologies sector.

At the fall meeting the group auditors reported on an inventory of the Group's risk exposure and an evaluation of the various risks.

The Supervisory Board has obtained detailed information from the Management Board and the auditors explaining the annual and consolidated financial statements, the combined management report of Henkel KGaA and the Group, and the recommendation for appropriation of the profit of Henkel KGaA. This was coupled with a report highlighting key issues regarding Henkel's risk management system, including figures quantifying the more important specific risks. There was no evidence of any risks which could endanger the continued existence of the Group as a going concern. The financial statements, which have been given an unqualified opinion by the auditors, and the reports on those statements prepared by the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, have been laid before the Supervisory Board.

The Supervisory Board has examined and approved the annual financial statements, the management report, and the recommendation for the appropriation of the profit for the year, as well as the consolidated financial statements and the Group management report. The Supervisory Board is in agreement with the annual financial statements and the recommendation for the appropriation of profit proposed by the personally liable managing members.

Düsseldorf, March 13, 2001

The Supervisory Board
Albrecht Woeste
(Chairman)

Corporate Management

Supervisory Board

Albrecht Woeste
Chairman
Private Investor

Winfried Zander
Vice Chairman
Chairman of the Works Council of the joint operation of Henkel KGaA and Cognis Deutschland GmbH

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

Hans Dietrichs
Chairman of the Works Council of Henkel Genthin GmbH

Ursula Fairchild
Private Investor

Benedikt-Joachim Freiherr von Herman
Forester

Bernd Hinz
Vice Chairman of the Works Council of the joint operation of Henkel KGaA and Cognis Deutschland GmbH

Prof. Dr. Dr. h.c. mult. Heribert Meffert
University Professor and Director of the Institute of Marketing, University of Münster

Hans Mehnert
Member of the Works Council of the joint operation of Henkel KGaA and Cognis Deutschland GmbH

Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber
Former Federal Minister for Research and Technology

Heinrich Thorbecke
Private Banker

Michael Vassiliadis
Executive Secretary of IG Bergbau, Chemie, Energie (German Mining, Chemicals and Energy Trade Union)

Bernhard Walter
Former Chairman of Dresdner Bank AG

Jürgen Walter
Member of the Executive Committee of IG Bergbau, Chemie, Energie (German Mining, Chemicals and Energy Trade Union)

Brigitte Weber
Member of the Works Council of the joint operation of Henkel KGaA and Cognis Deutschland GmbH

Dr. Anneliese Wilsch-Irrgang
Chemist
Representative of the Senior Staff of the joint operation of Henkel KGaA and Cognis Deutschland GmbH

Shareholders' Committee

Albrecht Woeste
Chairman
Private Investor

Christoph Henkel
Vice Chairman
Private Investor

Dr. Jürgen Manchot
Vice Chairman
Chemist

Stefan Hamelmann
Private Investor

Dr. h.c. Ulrich Hartmann
Chairman of the Board of Management of E.ON AG

Dr. h.c. Helmut O. Maucher
President of the Board of Nestlé S.A.
(until May 8, 2000)

Dr. Christa Plichta
Physician

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

Burkhard Schmidt
Managing Director of Jahr Vermögensverwaltung GmbH & Co. KG

Prof. Dr. Dr. Helmut Sihler
Former President and Chief Executive Officer of Henkel KGaA
(until May 8, 2000)

Dr. Hans-Dietrich Winkhaus
Former President and Chief Executive Officer of Henkel KGaA
(from May 8, 2000)

Management Group

JV Henkel-Ecolab

Bruno Deschamps
(until December 31, 2000)

John Spooner
(from January 1, 2001)
CEO

Affiliated Companies

Ramon Bacardit
Mexico

Klaus Behrens
Mercosul

Eberhard Buse
Australia

David Minshaw
(since March 1, 2000)
Henkel Asia Pacific

Thorsten Hagenau
Scandinavia

John Knudson
USA

Alois Linder
Spain

Dr. Jean-Pierre de Montalivet
France

Rolf Münch
Switzerland

Dr. Can Paker
Turkey

Gerhard Schlosser
Japan

Dr. Friedrich Stara
Henkel Central Eastern Europe

Rainer Tschersig
Germany

Dr. Vincenzo Vitelli
Italy

Management Board of Henkel KGaA (Personally Liable Managing Members)

President and Chief Executive Officer	Adhesives	Industrial and Institutional Hygiene/ Surface Technologies/ Human Resources	Laundry & Home Care
Dr. Ulrich Lehner (since May 8, 2000)	**Guido De Keersmaecker**	**Dr. Roland Schulz**	**Dr. Klaus Morwind**
Dr. Hans-Dietrich Winkhaus (until May 8, 2000)	Cosmetics/Toiletries **Prof. Dr. Uwe Specht**	Finance **Dr. Jochen Krautter**	

Operating Management of Henkel KGaA

Dr. Franz-Josef Acher	**Dr. Wolfgang Gawrisch**	**Dirk-Stephan Koedijk** (since January 1, 2001)	**Isabelle Parize**
Pierre Brusselmans	**Heinrich Grün**	**Jörg Koppenhöfer**	**Jürgen Seidler**
Gunter Effey	**Wolfgang Haumann**	**Robert A. Lurcott**	**Dr. Lothar Steinebach**
Jean Fayolle	**Dr. Peter Hinzmann**	**Dr. Jürgen Maaß**	**Gabriele Weiler**
		Dr. Angela Paciello	**Knut Weinke**

Management Board of Cognis B.V.

Chief Executive Officer	Organic Specialties	Oleochemicals
Dr. Harald Wulff	**Dr. Jochen Heidrich**	**Dr. Paul Hövelmann**
Manufacturing World and President Cognis Deutschland GmbH **Dr. Michael Schulenburg**	Finance **Joachim Söhngen**	Care Chemicals **Dr. Antonio Trius**

Membership of other supervisory and corporate management bodies required to be disclosed under § 125 (1) of the German Corporation Act (AktG)

Supervisory Board

Albrecht Woeste, Chairman. Deutsche Bank AG; Allianz Lebensvers.-AG; R. Woeste & Co. GmbH & Co. KG; IKB Deutsche Industriebank AG; Ecolab Inc., USA; Investitions-Bank NRW.

Winfried Zander, Vice Chairman. Cognis B.V., Roermond, Netherlands.

Dr. Ulrich Cartellieri: Robert Bosch GmbH; Deutsche Bank AG; DEG-Deutsche Investitions- und Entwicklungsges. mbH; BAE Systems plc., Great Britain.

Ursula Fairchild, The Clorox Company, USA (until November 2000); Henkel of America Inc., USA; Henkel Corp., USA.

Benedikt-Joachim Freiherr von Herman, Holzhof Oberschwaben eG.

Prof. Dr. Dr. h.c. mult. Heribert Meffert, Kaufhof Warenhaus AG; Kiekert AG; BASF Coatings AG; F-LOG AG.

Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber, Evotec BioSystems AG (Chairman); Altana AG; Frankfurter Allgemeine Zeitung GmbH; Mannesmann AG; Messer Griesheim GmbH; Osram GmbH; Portum AG; Heidelberg Innovation BioScience; Venture II GmbH & Co. KG.

Heinrich Thorbecke, Bank Thorbecke AG, Switzerland; Intervalor Holding AG, Switzerland; In Gassen Immobilien AG, Switzerland.

Michael Vassiliadis, mg technologies ag; Cognis Deutschland GmbH; Preussag Energie GmbH.

Bernhard Walter, Bilfinger + Berger Bauaktiengesellschaft; DaimlerChrysler AG; Deutsche Hyp (Deutsche Hypothekenbank Frankfurt-Hamburg AG); Deutsche Telekom AG; Heidelberger Zement AG; mg technologies ag; Staatliche Porzellan-Manufaktur Meissen GmbH; Thyssen Krupp AG; Wintershall AG (Vice Chairman); KG Allgemeine Leasing GmbH & Co. (Chairman of the Board).

Jürgen Walter, BASF AG; BASF Schwarzheide GmbH; Trienekens AG; RWE Umwelt AG.

Shareholders' Committee

Albrecht Woeste, Chairman (see Supervisory Board).

Christoph Henkel, Vice Chairman. HTM Sportartikel AG; The Clorox Company, USA; Henkel Corp., USA; Cineville Inc., USA; Head N.V., Rotterdam.

Dr. Jürgen Manchot, Vice Chairman. LTS Lohmann Therapie-Systeme AG; The Clorox Company, USA; Lohmann GmbH & Co. KG.

Dr. h.c. Ulrich Hartmann, Münchener Rückversicherungsgesellschaft AG (Chairman); RAG Aktiengesellschaft (Chairman); IKB Deutsche Industriebank AG (Chairman); Deutsche Lufthansa AG; Hochtief AG. **Board mandates:** E.ON Energie AG (Chairman). VEBA OEL AG (Chairman).

Dr. Wolfgang Röller, Heidelberger Zement AG (Chairman).

Burkhard Schmidt, Lycos Europe N.V.

Dr. Hans-Dietrich Winkhaus, Deutsche Telekom AG (Chairman); BMW AG; Ergo Versicherungsgruppe AG; Degussa AG; Deutsche Lufthansa AG; Schwarz-Pharma AG.

Management Board of Henkel KGaA

Dr. Ulrich Lehner, President and CEO. Henkel Asia-Pacific Ltd., Hong Kong; Dresdner Bank Luxemburg S.A., Luxembourg; Cognis B.V., Netherlands.

Guido De Keersmaecker, Henkel Belgium S.A., Belgium; Henkel Nederland B.V., Netherlands; Ashwa-Adhesives Industries Ltd., Saudi Arabia; Henkel Adhesives Middle East, Bahrain; Henkel Adhesives Egypt, Egypt.

Dr. Jochen Krautter, Dresdner Bank Lateinamerika AG; BASF Coatings AG; Henkel China Investment Co. Ltd., China; Henkel-Ecolab GmbH & Co. oHG; Cognis B.V., Netherlands.

Dr. Klaus Morwind, The Clorox Company, USA; Henkel Central Eastern Europe Ges. mbH, Austria; Henkel Ibérica S.A., Spain; Henkel S.p.A., Italy; Henkel Hellas S.A., Greece.

Dr. Roland Schulz, Parion Finanzholding AG. **Board mandates:** Henkel Teroson GmbH; Ecolab Inc., USA; Henkel-Ecolab GmbH & Co. oHG; Henkel Norden AB, Sweden.

Prof. Dr. Uwe Specht, Surplex AG; Henkel France S.A., France; Henkel & Cie AG, Switzerland; Henkel Nederland B.V., Netherlands; Henkel Belgium S.A., Belgium.

Further information

Henkel provides a wide-ranging information service with publications, CD-ROMs and Internet pages. The topics available extend from the sustainability report to information on research, and from our Corporate Guidelines to our Principles and Objectives of Environmental Protection and Safety.

Environmental declarations of individual sites are also available as are historic and summarized information booklets covering various aspects of the Group.

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Henkel is committed to the chemical industry's worldwide program Responsible Care®.

Henkel Group Ten-Year Summary (figures in million euro unless stated otherwise)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Sales	6,598	7,210	7,090	7,193	7,259	8,335	10,259	10,909	11,361	12,779
Operating profit	389	348	281 [5]	343	371	517	702	791	857	950
Earnings before taxes on income	379	318	299	346	389	454	1,001	644	692	816
Net earnings	227	206	197	237	250	284	320 [7]	372	404	505
Cash flow	676	714	738	659 [6]	639	729	1,040 [8]	1,065	1,247	1,159
– as % of sales	10.3	9.9	10.4	9.2	8.8	8.7	10.1	9.8	11.0	9.1
Total assets	5,069	5,121	5,305	5,362	5,941	7,311	8,905	9,130	9,856	11,382
Fixed assets	2,449	2,699	2,804	2,786	3,351	4,012	5,040	5,164	5,504	6,295
Current assets (incl. deferred tax)	2,620	2,422	2,501	2,576	2,590	3,299	3,865	3,966	4,352	5,087
Debt	2,990	3,372	3,428	3,281	3,741	4,786	6,061	6,301	6,618	7,882
Shareholders' equity [1]	2,079	1,748 [4]	1,877	2,081	2,200	2,525	2,844	2,829	3,238	3,500
– as % of total assets	41.0	34.1 [4]	35.4	38.8	37.0	34.5	31.9	31.0	32.9	30.8
Net return on sales (%) [2]	3.4	2.9	2.8	3.3	3.4	3.4	5.6	3.4	3.6	4.0
Return on equity (%) [3]	11.6	11.2	11.6	12.8	12.3	12.5	13.1 [9]	13.1	14.3	15.6
Dividend per ordinary share (in euro)	0.36	0.36	0.36	0.46	0.54	0.61	0.69	0.79	0.87	1.06 [10]
Dividend per preferred share (in euro)	0.51	0.51	0.51	0.56	0.59	0.66	0.74	0.84	0.93	1.12 [10]
Total dividends	60	60	60	74	82	93	104	119	131	157 [10]
Borrowings ÷ cash flow	1.26	1.57	1.36	1.19	1.69	1.93	1.85	2.03	1.54	2.56
Borrowings ÷ shareholders' equity (%)	40.9	64.0	53.6	37.6	49.2	55.6	67.7	76.5	59.1	84.7
Capital expenditure	692	1,123	502	515	1,078	833	2,127	979	746	1,359
Investment ratio (%)	10.5	15.6	7.1	7.2	14.9	10.0	20.7	9.0	6.6	10.6
Research and development costs	205	212	206	189	189	197	238	250	279	320
Number of employees (annual average)										
– Germany	18,687	17,635	16,617	15,313	14,684	15,473	15,138	15,257	15,065	15,408
– Abroad	23,353	24,561	23,853	25,277	27,044	30,904	38,615	41,034	41,555	45,067
Total	42,040	42,196	40,470	40,590	41,728	46,377	53,753	56,291	56,620	60,475

1) incl. participating certificates and participating loans up to 1996

2) net earnings ÷ sales

3) net earnings ÷ average equity capital over the year (equity capital at beginning of year since 1997)

4) at January 1, 1993

5) adjusted to show operating profit after charging restructuring costs

6) adjusted to bring cash flow statement into line with International Accounting Standards (IAS)

7) 576 million euro including gain from sale of GFC shareholding (Degussa)

8) restated in accordance with new method of calculation

9) excluding gain from sale of GFC shareholding (Degussa)

10) proposed

Calendar

Annual General Meeting of Henkel KGaA:
Monday, April 30, 2001
10:00 a.m.
CCD Congress Center, Düsseldorf

Publication of Quarterly Report
on January through March 2001:
Monday, April 30, 2001

Publication of Interim Report
on January through June 2001:
Thursday, August 9, 2001

Publication of Quarterly Report
on January through September 2001:
Monday, November 12, 2001

Fall Press Conference and Analysts' Meeting:
Monday, November 12, 2001

Press Conference on Fiscal 2001 and
Analysts' Meeting:
Tuesday, March 5, 2002

Annual General Meeting of Henkel KGaA:
Monday, May 6, 2002

Annual General Meeting of Henkel KGaA:
Monday, April 14, 2003

Henkel
125 years.
focus:future.