

# Information for Our Shareholders

on Business Performance January through March 2001

Henkel

*Diadermine is a comprehensive biomimetic skin care series from Schwarzkopf & Henkel that truly vitalizes the skin. The innovative product range of the Diadermine line has made it a leading facial care brand in several European countries. Now the series is being further augmented by a new moisturizer: Diadermine Aqua-Force. Innovative micro-capsules add moisture to the skin to give a long-lasting and particularly intensive effect. The skin stays fresher longer, with enhanced radiance, suppleness and vitality.*

# :Beauty



# Successful start in a difficult environment

● *Positive sales growth in*

*all businesses*

● *Crisis in Turkey adversely affects*

*quarterly earnings*

● *Very positive development*

*at Cognis*

## Sales and Profits

From January through March 2001, the Henkel Group realized worldwide sales of EUR 3.3 billion. This represents an 8.7 percent increase over the previous year. Organic growth accounted for 3.2 percent, foreign exchange factors contributed 1.0 percentage points to the rise in sales, and a net gain from acquisitions and divestments added 4.5 percent.

In Europe including Africa and the Middle East sales increased by 6 percent to EUR 2,278 million. Sales in North America rose by 9.4 percent, and in Latin America by 31.2 percent. An improvement in sales of 20.4 percent was achieved in the Asia/Pacific region.

Operating profit (EBIT) increased by 10.1 percent over the previous year figure to EUR 228 million, despite a loss of EUR 15 million from the devaluation of the Turkish lira. The return on capital employed (ROCE) was 13.2 percent.

Financial items were depressed by the restructuring costs of EUR 35 million of our associated company Clorox, which were however offset by income from the sale of company-owned apartments. The expected total charge

for the year through Clorox has thus already been incorporated in the first quarter.

Quarterly net earnings amounted to EUR 112 million. This represents an increase over the same period last year of 1.8 percent.

The cash flow of the Henkel Group improved during the first three months of this year by 6.5 percent to EUR 293 million.

## Major Events

In February 2001, the Henkel Group acquired the metal treatment business of Atofina, the chemicals division of TotalFinaElf, Paris, France. This division produces and markets products for metal forming and surface treatment. The sales of around EUR 110 million are mainly realized in North America and Europe.

In March 2001, the Henkel Group also acquired on behalf of the Surface Technologies division the automotive business of Vagnone & Boeri, Turin, Italy. Specializing in the manufacture of adhesives and sealants for automobile producers and their components suppliers, this business has annual sales of around EUR 12 million.

## Development of Business Sectors

In the first quarter of 2001, the **Adhesives** business sector increased sales by 13.2 percent to EUR 786 million. At EUR 63 million, operating profit fell short of the figure for the same period last year. The main reason for this lay in higher prices for important raw and packaging materials, which so far could not be passed on to the market. The economic crisis in Turkey additionally adversely affected profits.

Owing to difficulties involving the construction industry and craftsmen, the worldwide sales figure for Consumer and Craftsmen Adhesives during the first quarter was slightly up on the same period of the previous year.

## Henkel Group Key Data by Region

January – March 2001

Euro million	Europe/Africa/ Middle East	North America	Latin America	Asia/ Pacific	Group
<b>Sales Jan.-March 2001</b>	<b>2,278</b>	<b>557</b>	<b>163</b>	<b>278</b>	<b>3,276</b>
Sales Jan.-March 2000	2,148	510	124	231	3,013
Change in percent	6.0	9.4	31.2	20.4	8.7
<b>EBIT Jan.-March 2001</b>	<b>212</b>	<b>9</b>	<b>6</b>	<b>1</b>	<b>228</b>
EBIT Jan.-March 2000	178	16	8	5	207
Change in percent	19.1	- 43.2	- 19.8	- 79.9	10.1
<b>Return on sales EBIT Jan.-March 2001 in percent</b>	<b>9.3</b>	<b>1.7</b>	<b>3.7</b>	<b>0.4</b>	<b>7.0</b>
Return on sales EBIT Jan.-March 2000 in percent	8.3	3.2	6.0	2.3	6.9

Numerous innovations were launched onto the market in the course of the first quarter of 2001: Pattex Powerknete (mastic) and Ceresit Fliesenkleber (tile adhesive) with improved properties were introduced in Germany.

Specialty plastic adhesives and an innovative brush-applied superglue were internationally launched under the Loctite brandname.

Engineering Adhesives increased sales by 34 percent in the first three months of the year, due mainly to the acquisition of the specialty polymers business of Dexter. The established business performed very well in Europe, while in North America and Japan the weakness of the industrial sector had an adverse effect, particularly on business in the automotive and electronic industries.

Industrial and packaging adhesives continued their upward growth with an increase in sales of 10 percent. Overproportionate sales increases were recorded both in Asia/Pacific and in North and South America. The main contributors are the strategic business units paper processing and laminating adhesives. The continuing high raw material prices are being partly offset by market price adjustments.

The **Cosmetics/Toiletries** business sector succeeded in maintaining its high performance level of 2000 through the first quarter of 2001. Sales rose by 9.1 percent to EUR 497 million and operating profit increased by 3.8 percent to EUR 27 million.

Compared to the same period last year, the brand-name products business increased sales by 9 percent. The main regions contributing to this success were Central Europe, Asia/Pacific and North and Latin America. Business in Russia developed particularly well with a sales growth of around 90 percent. Business performance in Turkey and Israel was however below target.

Sales in Hair Cosmetics rose by 19 percent over the previous year. The main contributors were hair colorants, which showed a very positive organic growth. The performance of the Brilliance and Palette brands was also excellent. The takeover of Yamahatsu in Japan likewise contributed to the success of the hair colorants business.

Sales in the body care business rose by 4 percent, due especially to the success of the Fa brand. At the beginning of the year the new "Fa Wellness" series was launched in key European markets.

## Segment Information by Business Sector January through March 2001

	Adhesives	Cosmetics/ Toiletries	Laundry & Home Care	Hygiene/ Surface Technologies	Chemical Products (Cognis)	Other	Group
Sales Jan.-March 2001	786	497	759	468	748	18	3,276
Change in percent	13.2	9.1	12.2	2.7	5.7	- 25.1	8.7
Portion of Group sales	24.0	15.2	23.2	14.3	22.8	0.5	100.0
Sales Jan.-March 2000	695	456	677	455	707	23	3,013
EBITDA Jan.-March 2001	117	49	72	52	88	10	388
EBITDA Jan.-March 2000	114	50	80	55	82	- 25	356
Change in percent	2.6	- 2.0	- 10.0	- 5.5	7.3	-	9.0
Return on sales (EBITDA) in percent Jan.-March 2001	14.9	9.9	9.5	11.1	11.8	-	11.8
Return on sales (EBITDA) in percent Jan.-March 2000	16.4	11.0	11.8	12.1	11.6	-	11.8
EBITA Jan.-March 2001	90	38	48	33	57	7	273
EBITA Jan.-March 2000	90	36	54	38	53	- 25	246
Change in percent	-	5.6	- 11.1	- 13.2	7.5	-	11.0
Return on sales (EBITA) in percent Jan.-March 2001	11.5	7.6	6.3	7.1	7.6	-	8.3
Return on sales (EBITA) in percent Jan.-March 2000	12.9	7.9	8.0	8.4	7.5	-	8.2
EBIT Jan.-March 2001	63	27	45	29	56	8	228
EBIT Jan.-March 2000	68	26	53	34	51	- 25	207
Change in percent	- 7.4	3.8	- 15.2	- 16.7	9.5	-	10.1
Return on sales (EBIT) in percent Jan.-March 2001	8.1	5.5	5.9	6.1	7.5	-	7.0
Return on sales (EBIT) in percent Jan.-March 2000	9.8	5.7	7.8	7.5	7.2	-	6.9
ROCE in percent Jan.-March 2001	11.2	12.5	18.7	15.5	12.5	-	13.2
Capital employed Jan.-March 2001	3,174	1,226	1,015	840	1,837	152	8,244
Capital expenditures (excl. financial assets) Jan.-March 2001	28	9	19	28	24	3	111
Capital expenditures (excl. financial assets) Jan.-March 2000	106	18	16	20	49	1	210
Research & Development costs (R&D) Jan.-March 2001	24	9	17	12	19	7	88
R&D as % of sales	3.1	1.8	2.2	2.6	2.5	-	2.7
Research & Development costs (R&D) Jan.-March 2000	19	8	16	12	16	3	74
R&D as % of sales	2.7	1.8	2.4	2.6	2.3	-	2.5

The skin care products Diadermine and Aok performed successfully. The Diadermine Force-Retinol Pflegemaske (facial care mask) and the Aqua-Force high-care moisturizer system contributed to the further growth.

The hair salon business continued to develop well. Sales grew by 9 percent during the first quarter of 2001. The first three months of this year saw the launch of

several new products such as Igora Personality, Osis Carving and Bonacure Sun.

The **Laundry & Home Care** business sector increased sales by 12.2 percent to EUR 759 million. Operating profit decreased by 15.2 percent to EUR 45 million. Earnings for the first quarter have been adversely affected by EUR 10 million due to negative effects from the crisis in Turkey.

In Europe sales further increased despite virtual stagnation in the markets. In the countries outside Europe, organic growth amounted to more than 20 percent, with new activities in Algeria and Mexico.

Heavy-duty detergents increased sales by 25 percent. Performance in Germany, Italy and the countries of Eastern Europe was especially positive. However, due to the economic crisis in Turkey, sales increased only slightly despite a gain in market shares. Record growth rates were attained in the Near and Middle East where especially our premium brand Persil is performing very well. Growth of detergent gels continues unabated.

In China and India, sales volume was satisfactory, albeit with pressure on margins remaining high and a discernible shift toward lower-cost products.

Sales of special detergents were 8 percent down on the figures of the strong first quarter of fiscal 2000.

The sales decrease is attributable both to the economic crisis in Turkey and the lack of consumer acceptance of the Home Dry Cleaning category. The Svit brand that was launched in the first quarter of the previous year, lacked follow-up purchasing.

Household cleaner sales rose by 3 percent. The international roll-outs of the newly patented 3in1 tabs technology for automatic dishwashers and the innovative WC foam cleaner started very successfully.

The **Industrial and Institutional Hygiene/Surface Technologies** business sector achieved a sales increase of 2.7 percent to EUR 468 million. Operating profit decreased by 16.7 percent to EUR 29 million.

The drop in earnings is due to price increases for raw materials (Industrial and Institutional Hygiene) and the economic downturn in the North American automotive sector (Surface Technologies).

**Industrial and Institutional Hygiene** (the Henkel-Ecolab joint venture) increased sales in the first quarter by 3 percent to EUR 220 million. Price increases have either been implemented or are being prepared for most European countries in order to offset the rise in raw material and transport costs.

An innovative dispenser system for hand and skin hygiene – Zip ‘n’ Safe – was launched onto the market. Keen interest in water- and energy saving systems is reviving demand in the Textile Hygiene unit. Despite the sales losses resulting from the BSE problem in important national markets of the meat processing industry, the P3-Hygiene business has grown. There was a decline in demand at the Institutional Hygiene and Floordress businesses, which rely more heavily on trade distribution channels.

At EUR 248 million, sales at **Surface Technologies** were 2 percent up on the previous year. The businesses performed very successfully in Germany. Good growth rates continued in Europe and Asia/Pacific, with the exception of Japan. Sales in Latin America slightly improved. Business in North America suffered from the continuing economic downturn.

Except for North America, the Automotive business maintained its positive development. Autobody reinforcing products (Terocore) contributed especially to the positive overall business development. Our position in the Italian automotive industry has been significantly strengthened by the acquisition of Vagnone & Boeri.

The Industry (non-automotive) business unit maintained performance at the level of the previous year. Worldwide market share gains were attained with organic coatings (Granocoat) for the steel and components industries. The acquisition of the Atofina metal treatment and aerospace business in March opens up new markets and opportunities for further growth, especially in Europe and North America.

During the first quarter of this year, the Chemical Products business sector operating as a legally independent company under the name **Cognis** increased sales by 5.7 percent to EUR 748 million. All Cognis businesses contributed to this development. Operating profit increased by 9.5 percent to EUR 56 million, although one-time

<b>Consolidated Balance Sheet March 31, 2001</b>	December 31, 2000	March 31, 2001
Tangible and intangible assets	5,373	5,415
Financial assets	922	1,049
<b>Fixed assets</b>	<b>6,295</b>	<b>6,464</b>
Inventories	1,711	1,781
Trade accounts receivable	2,302	2,447
Other receivables and miscellaneous assets	622	677
Liquid funds/marketable securities	155	167
<b>Current assets</b>	<b>4,790</b>	<b>5,072</b>
<b>Deferred tax assets</b>	<b>297</b>	<b>309</b>
<b>Total assets</b>	<b>11,382</b>	<b>11,845</b>
<b>Equity excluding minority interests</b>	<b>3,223</b>	<b>3,213</b>
Minority interests	277	280
<b>Equity including minority interests</b>	<b>3,500</b>	<b>3,493</b>
Provisions for pensions and similar obligations	1,984	2,019
Other provisions	1,076	1,092
Provisions for deferred tax liabilities	200	192
<b>Provisions</b>	<b>3,260</b>	<b>3,303</b>
Borrowings	2,963	3,070
Trade accounts payable	1,117	1,165
Other liabilities	542	814
<b>Liabilities</b>	<b>4,622</b>	<b>5,049</b>
<b>Total equity and liabilities</b>	<b>11,382</b>	<b>11,845</b>

<b>Consolidated Statement of Income March 31, 2001</b>	January–March 2000	January–March 2001
<b>Sales</b>	<b>3,013</b>	<b>3,276</b>
Cost of sales	1,628	1,803
<b>Gross profit</b>	<b>1,385</b>	<b>1,473</b>
Marketing, selling and distribution costs	862	917
Research and development costs	74	88
Administrative expenses	175	197
Other operating income	17	48
Other operating charges	20	21
Restructuring costs	25	25
Amortization of goodwill	39	45
<b>Operating profit (EBIT)</b>	<b>207</b>	<b>228</b>
Net income from participations	39	39
Net interest expense	– 60	– 85
<b>Financial items</b>	<b>– 21</b>	<b>– 46</b>
<b>Earnings before tax</b>	<b>186</b>	<b>182</b>
Taxes on income	– 76	– 70
<b>Net earnings</b>	<b>110</b>	<b>112</b>

Cash Flow Statement	January–March 2000	January–March 2001
<b>Operating profit/EBIT</b>	<b>207</b>	<b>228</b>
Income taxes paid	– 77	– 65
Depreciation of fixed assets (excl. financial assets)	149	160
Net gains from disposals of fixed assets (excl. financial assets)	– 4	– 30
<b>Cash flow</b>	<b>275</b>	<b>293</b>
Change in inventories	– 17	– 44
Change in receivables and miscellaneous assets	– 98	– 210
Change in liabilities and provisions	129	139
<b>Net cash flow from operating activities</b>	<b>289</b>	<b>178</b>
<b>Net cash flow from investing activities <sup>1)</sup></b>	<b>– 233</b>	<b>– 161</b>
<b>Net cash flow from financing activities <sup>2)</sup></b>	<b>– 35</b>	<b>– 10</b>
<b>Change in cash and cash equivalents</b>	<b>21</b>	<b>7</b>
Effect of exchange rate changes on cash and cash equivalents	5	5
Change in cash and cash equivalents due to first-time inclusion of companies	15	–
<b>Change in liquid funds and marketable securities</b>	<b>41</b>	<b>12</b>
Liquid funds/marketable securities on January 1	141	155
Liquid funds/marketable securities on March 31	182	167
<sup>1)</sup> Capital expenditure on intangible assets	– 3	– 3
Capital expenditure on property, plant and equipment	– 87	– 96
Capital expenditure on financial assets	– 13	0
Acquisitions	– 144	– 102
Proceeds from disposals of fixed assets	14	40
<b>Net cash flow from investing activities</b>	<b>– 233</b>	<b>– 161</b>
<sup>2)</sup> Henkel KGaA dividends	0	0
Subsidiary company dividends (to other shareholders)	– 5	– 2
Interest and dividends received	32	79
Interest paid	– 58	– 96
Change in borrowings	27	22
Repurchase of treasury shares	0	– 8
Other financing transactions	– 31	– 5
<b>Net cash flow from financing activities</b>	<b>– 35</b>	<b>– 10</b>

restructuring costs to increase productivity in the U.S. and losses arising from the devaluation of the Turkish lira adversely affected earnings by EUR 15 million.

While the slowdown of the North American economy is noticeable in the U.S. businesses, activities in Europe, Asia/Pacific and Latin America showed gratifying sales increases. Earnings development was correspondingly positive.

In spite of the economic difficulties prevailing in North America, the feedstock chemicals of the Oleochemicals division performed well overall. The margins achieved remain satisfactory.

In Care Chemicals, the strategic business units Nutrition & Health, Food Technology and Care Specialties performed well. The strong sales growth encountered in the Skin Care segment deserves particular mention. This encouraging development is also expected to continue through the second quarter.

Organic Specialties also performed well, due in particular to an expansion in business with products for the coatings and inks industry (in Europe especially), the agrochemicals business and sales improvements in the leather technology business and in oilfield chemicals.

### Major Participations

Ecolab Inc., St. Paul, Minnesota, USA, in which Henkel holds a participating interest of 25.4 percent, registered a growth in sales of 10 percent to US\$ 581 million in the first quarter of 2001. Earnings in the period under review rose by 4 percent to US\$ 44 million.

The Clorox Company, Oakland, California, USA, in which Henkel has a 26.6 percent participation, recorded sales amounting to US\$ 2,873 million in the first nine months of fiscal 2000/2001. Net earnings for the period under review amounted to US\$ 241 million.

### Employees

As of March 31, 2001, the number of employees at the Henkel Group was 60,516. The proportion of Henkel personnel working outside Germany was 74 percent.

### Employees

(as of)	Dec. 31, 2000	March 31, 2001	Change in %
Germany	15,878	15,845	- 0.2
Abroad	45,025	44,671	- 0.8
<b>Total</b>	<b>60,903</b>	<b>60,516</b>	<b>- 0.6</b>

### Outlook

Due to the economic slowdown in the USA, we expect difficult business conditions for our industrial systems businesses Adhesives and Surface Technologies for the first half of 2001. In our brand-name products business we expect a comparatively better development of sales and earnings.

Despite the unfavorable environment in the first quarter, we are confident to achieve a satisfactory increase in sales and earnings.

Henkel KGaA  
The Management Board

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Publication of Quarterly Report on January through September 2001 and Fall Press and Analysts' Conference  
Monday, November 12, 2001

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

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

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

**Next important dates:**  
Publication of Interim Report on January through June 2001  
Tuesday, August 14, 2001

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