



Chip-bonding: Adhesive strength within the smallest of spaces

One of the specialty areas of Henkel Adhesives relates to the **surface mounting of electronic components**. Henkel supplies what the experts call SMA's (surface mount adhesives). **The task of SMA's is to secure the electronic components on a printed circuit board during the assembly and soldering operations.** As the assembly and process times in the production of electronic equipment – mobile telephones and computers for example – are becoming ever shorter, the requirements being placed on the adhesives used invariably involve faster processing speeds and reduced curing times. **The advanced chip-bonders from Henkel contribute to sustained improvements and process acceleration in manufacturing in the electronics industry.**

- ▶ Sales and profits show strong growth
- ▶ All business sectors performed successfully
- ▶ Market share gains from innovative products

Sales, Profits and Cash Flow

From January through March 2000, the Henkel Group realized sales of 3.0 billion euro. This represents a 12.9 percent increase over the same period last year. Organic growth amounted to 8.4 percent. Foreign exchange influences contributed 5.0 percentage points to sales growth, while divestments accounted for a negative influence of 0.5 percentage points.

Sales of the German companies rose by 3.3 percent. The foreign Group companies achieved an increase in sales of 16.5 percent. In North America, sales rose by 18.6 percent, while in Latin America the increase was 28.9 percent. In the Asia Pacific region, sales growth amounted to 36.6 percent.

Operating profit (EBIT) was at 207 million euro and thus 17.3 percent up on the level of 176 million euro for the previous year. All business sectors except Cosmetics/Toiletries achieved double-digit growth. Return on investment improved to 12.5 percent (previous year: 10.9 percent).

With 275 million euro, the cash flow of the Henkel Group was slightly below the level of the previous year. The 31 million euro increase in EBIT was offset by higher corporate income taxes which rose by 38 million euro.

Net earnings for the quarter increased by 61.8 percent to 110 million euro. In the first quarter of 1999, net earnings were impacted by 16 million euro of restructuring charges from Clorox due to the acquisition of First Brands.

Major Events

In January, Multicore Industries located in Great Britain was acquired for 43 million GBP. With this takeover, the Adhesives business sector has further expanded its position as world market leader for engineering adhesives in the rapidly growing electronic components sector.

Henkel Group Sales January through March 2000

Sales by product sector	Jan.–March 1999 Euro million	Jan.–March 2000 Euro million	Change in percent
Adhesives	596	695	16.6
Cosmetics/Toiletries	414	456	10.2
Detergents/ Household Cleaners	637	677	6.3
I & I Hygiene/ Surface Technologies	401	455	13.5
Chemical Products (Cognis)	598	707	18.3
Other	24	23	–
Total	2,670	3,013	12.9
Sales by region			
Germany	740	764	3.3
Europe (without Germany)	1,184	1,316	11.1
North America	430	510	18.6
Latin America	97	124	28.9
Africa	28	38	33.4
Asia Pacific	191	261	36.6
Total	2,670	3,013	12.9

A joint research center has been established with the Kinki University in Osaka, Japan. A research partnership was founded with the Technical University of Darmstadt, Germany, as a new, progressive approach of combining research activities and competencies in the field of science and business. The objective is to convert research results more quickly into economically viable products and processes.

In view of the ongoing trend towards internationalization in the detergents business, Henkel and The Dial Corporation (USA) have jointly acquired a majority (80 percent of the shares) in the Mexican detergents company Fabrica de Jabon Mariano Salgado S.A. de C.V.

To create a sustainable incentive for the management of the Henkel Group, Henkel has introduced a new Stock Incentive Program. In order to finance this program, the buy-back of up to max. 10 percent of the subscribed capital was approved by the Annual General Meeting.

A procurement marketplace on the internet will be founded for the industrial businesses jointly with SAP, Degussa-Hüls and BASF. A similar project is being pursued with Danone, Nestlé and SAP for the consumer goods businesses.

Development of Business Sectors

The **Adhesives** business sector increased sales by 16.6 percent to 695 million euro. Operating profit increased by 28.7 percent to 68 million euro. This is attributable to the very positive business development in Germany, North America and Asia.

Consumer and Craftsmen Adhesives started the year 2000 successfully, achieving a sales growth of 12 percent. In particular, home improvement and decoration products registered an outstanding first quarter in the specialist trade sector. Developments in the do-it-yourself business were also very encouraging. The introduction of Metylan Tabs and the further international roll-out of the “No More Nails” concept showed good results. Innovative roller products for adhesive-bonding and correction likewise contributed to the growth of the European business. In the USA, business activities involving adhesive tape continued to develop positively.

Industrial and Packaging Adhesives increased sales by 16 percent. In North America, market positions were expanded, particularly in relation to labeling and bookbinding adhesives and wood glues. The market leadership in Liofol laminating adhesives was strengthened.

Engineering Adhesives (Loctite) achieved a sales increase of 25 percent. The positive development was essentially the result of business growth in North America and Asia Pacific. Business in the highly profitable reactive adhesives segment developed particularly well.

The **Cosmetics/Toiletries** business sector succeeded in increasing sales by 10.2 percent to 456 million euro, with the Hair Salon business making a particularly large contribution. As a result of increased advertising spending supporting the further international roll-out of new products, operating profit rose by 2 percent to 26 million euro.

Henkel Group Cash Flow Statement

	Jan.–March 1999	Jan.–March 2000
	Euro million	Euro million
Operating profit (EBIT)	176	207
Income taxes paid	– 39	– 77
Depreciation/Write-ups of fixed assets (excl. financial assets)	142	149
Net gains from disposals of fixed assets (excl. financial assets)	– 2	– 4
Cash flow	277	275
Change in working capital	– 24	14
Net cash flow from operating activities	253	289
Net cash flow from investing activities	– 99	– 233
Net cash flow from financing activities	– 165	– 35
Effect of exchange rate changes on cash and cash equivalents	– 11	20
Change in liquid funds and marketable securities	0	41
Liquid funds and marketable securities at March 31	127	182

Sales of Hair Cosmetics rose by 7 percent during the first quarter. In Germany, the market leadership in hair colorants was extended. Market shares were significantly increased in France, Italy and Benelux. Schauma and Taft consolidated their market leadership in hair care and styling products in Germany.

Business with bodycare products increased by 10 percent. The Fa Classic line was extended through the introduction of two new fragrances (Green Tea and Spring Flower). The introduction of the Fa Men series in Germany and Eastern Europe brought market share gains. In the case of skincare products, the anti-aging line Diadermine Force Retinol registered market share increases in Spain and France. The Diadermine line was introduced in Germany and exceptionally well received by the trade.

The Hair Salon business performed very successfully, increasing sales by 28 percent.

Henkel Group Segment Information by Business Sector January through March 2000

Euro million	Adhesives	Cosmetics/ Toiletries	Detergents/ Household Cleaners	I & I Hygiene/ Surface Technologies	Chemical Products (Cognis)	Other	Henkel Group
Sales Jan.–March 2000	695	456	677	455	707	23	3,013
Sales Jan.–March 1999	596	414	637	401	598	24	2,670
Change in percent*	16.6	10.2	6.3	13.5	18.3	–	12.9
EBIT Jan.–March 2000	68	26	53	34	51	– 25	207
EBIT Jan.–March 1999	53	26	46	26	31	– 6	176
Change in percent*	28.7	2.0	14.3	34.2	62.4	–	17.3
Return on sales Jan.–March 2000 (in %)	9.8	5.7	7.8	7.5	7.2	–	6.9
Return on sales Jan.–March 1999 (in %)	8.9	6.2	7.3	6.4	5.3	–	6.6
Return on investment Jan.–March 2000 (in %)	11.9	10.8	30.4	17.9	11.4	–	12.5
Return on investment Jan.–March 1999 (in %)	9.6	10.2	25.1	13.5	8.2	–	10.9

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

The **Detergents/Household Cleaners** business sector increased sales by 6.3 percent to 677 million euro. Operating profit increased by 14.3 percent to 53 million euro.

The 8 percent increase in sales in Heavy-Duty Detergents was very satisfactory.

Specialty Detergents also performed very well with an increase in sales of 13 percent. Innovative product concepts, introduced at the end of 1999 and the beginning of 2000, mainly contributed to this growth. Noteworthy are “Svit”, launched in the new market for dry cleaning in the tumble dryer, and also “Vernel Soft & Easy”, which facilitates ironing.

Sales in Household Cleaners were slightly up on the level of the same period last year. Market leadership in Germany was regained with the machine dishwashing detergent “Somat 2 in 1”. This innovative product is also currently being launched in other European countries.

The **Industrial and Institutional Hygiene/Surface Technologies** business sector achieved an increase in sales of 13.5 percent to 455 million euro. Operating profit improved by 34.2 percent to 34 million euro due to the strong performance of Surface Technologies and favorable exchange rate effects.

In the Industrial and Institutional Hygiene business, sales rose by 9 percent to 213 million euro.

The Hospital Hygiene unit achieved a sales increase of 8 percent. Sales of the Institutional Hygiene business likewise increased by 8 percent. Benefiting from successful product introductions, sales of the Textile Hygiene and the Food & Beverage/P3 business rose by 7 percent

The sustained upswing in business development at Surface Technologies resulted in a sales increase of 18 percent to 242 million euro. All regions contributed to this encouraging development. The automotive and the industrial businesses succeeded in expanding their leading positions worldwide. The continuing expansion of activities involving new technologies and innovative products was successful; examples are Terocore (polymer foam for car body reinforcement) and Granocoat (organic coating of sheet steel components).

During the first quarter, the Chemical Products business sector, now a legally independent company operating under the name **Cognis**, achieved an increase in sales of 18.3 percent to 707 million euro. Operating profit rose by 62.4 percent to 51 million euro compared to a relatively weak first quarter 1999.

Henkel Group Consolidated Balance Sheet

	December 31, 1999		March 31, 2000	
	Euro million	%	Euro million	%
Tangible and intangible assets	4,717	47.8	4,871	47.0
Financial assets	787	8.0	856	8.3
Fixed assets	5,504	55.8	5,727	55.3
Deferred tax assets	237	2.4	244	2.3
Inventories	1,505	15.3	1,568	15.1
Accounts receivable and miscellaneous assets	2,469	25.0	2,643	25.5
Liquid funds/marketable securities	141	1.5	182	1.8
Current assets	4,115	41.8	4,393	42.4
Total assets	9,856	100.0	10,364	100.0
Equity excluding minority interests	2,948	29.9	3,024	29.2
Minority interests	290	3.0	299	2.9
Equity including minority interests	3,238	32.9	3,323	32.1
Provisions for pensions and similar obligations	1,871	19.0	1,897	18.3
Other provisions	1,159	11.7	1,220	11.8
Provisions	3,030	30.7	3,117	30.1
Provisions for deferred tax liabilities	184	1.9	189	1.8
Borrowings	1,915	19.4	2,009	19.3
Trade accounts payable	1,029	10.4	1,036	10.0
Other liabilities	460	4.7	690	6.7
Liabilities	3,404	34.5	3,735	36.0
Total equity and liabilities	9,856	100.0	10,364	100.0

Henkel Group Consolidated Statement of Income

	January – March 1999		January – March 2000	
	Euro million	%	Euro million	%
Sales	2,670	100.0	3,013	100.0
Cost of sales	1,451	54.3	1,628	54.0
Gross profit	1,219	45.7	1,385	46.0
Marketing, selling and distribution costs, research and development costs, administrative expenses incl. operating income and charges	992	37.2	1,114	37.0
Amortization of goodwill	36	1.3	39	1.3
Restructuring costs	15	0.6	25	0.8
Operating profit (EBIT)	176	6.6	207	6.9
Financial items	– 49	– 1.9	– 21	– 0.7
Earnings before tax	127	4.7	186	6.2
Taxes on income	– 59	– 2.2	– 76	– 2.5
Net earnings	68	2.5	110	3.7

Employees

(as of)	Dec. 31, 99	March 31, 2000	Change in %
Germany	15,412	15,460	0.3
Abroad	40,984	41,203	0.5
Total	56,396	56,663	0.5

The revival at the Oleochemicals division, which already began towards the end of 1999, accelerated through the first quarter of 2000. The increase in sales of 18 percent was mainly attributable to the performance of oleochemical base materials, especially fatty acids, and to Nutrition & Health.

Care Chemicals continued its positive sales development with an increase of 14 percent. The businesses in Europe and Asia Pacific contributed strongly to this development.

In spite of the sale of the paper auxiliaries business, sales of Organic Specialty Chemicals rose by 14 percent. Sales in paints and coatings increased significantly thanks to the introduction of new products offering improved customer benefits and ecologically compatible solutions. Business in textile auxiliary products and synthetic lubricants developed very positively.

Major Participations

Ecolab Inc., St. Paul, Minnesota, USA, in which Henkel holds a 25 percent interest, achieved a sales increase of 8 percent to 526 million US\$ in the first quarter of 2000. The introduction of new products in the USA particularly contributed to this development. Net earnings for the period rose by 22 percent to 43 million US\$.

The Clorox Company, Oakland, California, USA, in which Henkel has a 26.6 percent interest, achieved an increase in sales of 1 percent to 2,930 million US\$ during the first three quarters of fiscal 1999/2000. In the third quarter, Household Products performed particularly well thanks to new product launches and sound international business growth. Net earnings for the period under review amounted to 269 million US\$, representing an increase of 37 percent.

Capital Expenditures

Additions to fixed assets during the first quarter of 2000 amounted to 87 million euro. These were essentially attributable to projects in the Brand-Name Products, Adhesives and Chemical Products sectors.

Employees

As of March 31, 2000, the number of employees at the Henkel Group was 56,663. The proportion of Henkel personnel working outside Germany was 73 percent.

Outlook

This year we target stronger organic growth combined with higher profitability. In view of the good business performance achieved in the first quarter, the positive worldwide economic outlook and the ongoing success coming from the introduction of innovative products and technologies, we are confident of achieving a consolidated sales figure in excess of 12 billion euro and a double-digit increase in earnings per share for fiscal 2000.

Henkel KGaA
The Management Board

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Next important dates:
Publication of Interim Report
on January through June 2000:
Monday, August 14, 2000

Publication of Quarterly Report
on January through
September 2000:
Monday, November 13, 2000

Fall Press Conference and
Analysts' Meeting:
Monday, November 13, 2000

Press Conference on Fiscal 2000
and DVFA Analysts' Meeting:
Monday, March 19, 2001

Annual General Meeting of
Henkel KGaA:
Monday, April 30, 2001