

# Information for Our Shareholders

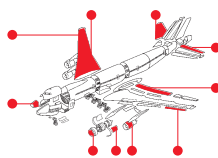
on Business Performance January through September 2000

**Henkel**



## Engineering Adhesives

Henkel **Adhesives** has closed a strategic gap: By purchasing a significant share of the specialty polymers business of Dexter Corporation, U.S., the **world market leader Henkel** is now also an approved supplier to the international **aerospace industry**. The Dexter brand Hysol represents a particularly sophisticated epoxy technology for engineering adhesives that play a leading role in aircraft construction worldwide. High-durability bonding compounds from Dexter also lead the market in another promising segment: Microelectronics. Henkel-Loctite's established business will thus be significantly strengthened, and the position of its **Engineering Adhesives division is expected to undergo further expansion in the growth markets of tomorrow.**



- ▶ Sales and profits showed sustained growth
- ▶ Market positions markedly improved
- ▶ Favorable outlook for the year

## Sales and Profits

From January through September 2000, the Henkel Group realized worldwide sales of EUR 9.4 billion. This represents a 12.1 percent increase over the same period last year. Organic growth was 6.4 percent, and foreign exchange factors contributed 4.9 percentage points to the rise in sales. Acquisitions/divestments also made a positive contribution amounting to 0.8 percent.

Sales of the companies in Germany rose by 5.0 percent while the companies abroad achieved an increase of 14.7 percent. Overall, the businesses in Europe (excluding Germany) registered a sales increase of 8.3 percent. Sales in North America rose by 15.1 percent and in Latin America by 28.8 percent. An increase in sales of 37.3 percent was achieved in Asia/Australia.

Operating profit (EBIT) increased by 11.3 percent to EUR 704 million. The business sectors Industrial and Institutional Hygiene/Surface Technologies and Cognis both performed particularly well, with each registering double-digit growth rates. The return on investment improved to 13.6 percent (previous year: 13.0 percent).

The cash flow of the Henkel Group decreased by 7.6 percent to EUR 813 million in the course of

the first nine months of this year. The reduction is due to tax payments for prior years following a tax audit.

Net earnings for the first nine months amounted to EUR 359 million. This represents an increase of 28.7 percent over last year.

## Major Events

In August, following regulatory and anti-trust clearances, the American subsidiary Loctite Corporation assumed control of a significant share of the specialty polymers business of Dexter Corporation, U.S. This substantially strengthens the position of the Adhesives business sector in the growth industries electronics, automotive and aerospace. The newly acquired businesses achieved sales of EUR 220 million in 1999.

The Dexter businesses were incorporated as financial assets in the Henkel balance sheet as of September 30, 2000. Consolidation in the Henkel Group will be implemented at the end of 2000 retrospectively. The Dexter businesses will be consolidated from mid-August until year-end 2000.

## Henkel Group Key Data by Region January – September 2000

EUR million	Europe	North America	Latin America	Africa	Asia/Australia	Group
<b>Sales Jan.–Sept. 2000</b>	<b>6,365</b>	<b>1,598</b>	<b>413</b>	<b>154</b>	<b>910</b>	<b>9,440</b>
Sales Jan.–Sept. 1999 <sup>1)</sup>	5,947	1,387	321	105	663	8,423
Change in percent <sup>2)</sup>	7.0	15.1	28.8	46.6	37.3	12.1
<b>EBIT Jan.–Sept. 2000</b>	<b>599</b>	<b>44</b>	<b>21</b>	<b>7</b>	<b>33</b>	<b>704</b>
EBIT Jan.–Sept. 1999	522	79	18	7	6	632
Change in percent <sup>2)</sup>	14.6	- 44.1	18.3	4.2	394.6	11.3
<b>EBIT Margin (in %)</b>	<b>9.4</b>	<b>2.8</b>	<b>5.2</b>	<b>4.6</b>	<b>3.6</b>	<b>7.5</b>
EBIT Margin (in %)	8.8	5.7	5.6	6.5	1.0	7.5

<sup>1)</sup> adjusted due to Cognis carve-out

<sup>2)</sup> changes from previous year on the basis of figures in thousand euro

Surface Technologies has established a joint venture with OAO Plastik in Russia. The company will manufacture plastisols and polyurethane adhesives for the Russian automotive industry. Henkel is thus responding to the growing importance of the Russian automotive industry. Management responsibility for this joint venture lies with Henkel. While OAO Plastik will be providing the infrastructure, buildings and the sales organization, Henkel will be contributing machinery and know-how to the joint venture.

### Development of Business Sectors

The **Adhesives** business sector increased sales by 14.4 percent to EUR 2.1 billion. Operating profit grew by 4.5 percent to EUR 193 million.

All three divisions - Consumer and Craftsmen Adhesives, Industrial and Packaging Adhesives, and Engineering Adhesives - contributed to this favorable development. Performance in North America and Asia/Australia was particularly encouraging.

Business in Russia developed positively since the economic crisis, while in Germany further market share gains were achieved against the prevailing trend.

Consumer and Craftsmen Adhesives increased sales by 9 percent worldwide. There was good progress in the international penetration with DIY assembly adhesives. The newly launched Sista fire protection products have opened up interesting new fields of activity for craftsmen. The international rollout of the new generation of Pritt rollers for bonding, correction and highlighting continued successfully, with the focus on Southern Europe and Latin America.

Industrial and Packaging Adhesives recorded a total increase in sales of 17 percent. All regions contributed to this growth, but North and South America had a particularly positive influence showing double-digit growth rates. The rise in crude oil prices resulted in an increase in raw material prices which so far could not be fully passed on to the market.

Engineering Adhesives (Loctite) again saw their excellent business performance continue and achieved a sales increase of 22 percent (organic growth) compared with last year. In Asia/Australia, sales expanded by 68 percent, mainly driven by rapid growth in the business with the electronics industry. The purchase

of the specialty polymers business of the Dexter Corporation in August has significantly strengthened Loctite's position in the electronics sector and provided it with an entry to the aerospace industry. Integration of the Multicore business, acquired at the beginning of the year, progressed well.

The **Cosmetics/Toiletries** business sector increased sales by 10.7 percent to EUR 1.5 billion. Business performance was particularly positive in Germany, Europe, Latin America and Asia/Australia. In China, measures have been introduced to improve profitability. Business in Russia has developed well following the economic crisis. Operating profit increased by 9.0 percent to EUR 95 million.

Hair Cosmetics increased sales during the first nine months by 9 percent and achieved again significant market share gains. The number 2 position in Europe was further consolidated. Particularly gratifying was the further market share increase in colorants following the relaunch of the brands Country Colors, Diadem/Soyance, Vital Colors and Live. In Hair Care, the relaunch of Gliss-Kur resulted in record market shares for hair treatments and rinses. The introduction of new products under the Schauma brand (Color Shine, Meereskraft) further boosted sales in Germany. With the successful introduction of the styling line Taft in France and the continuing success of the brands L.A. Looks and Dep in the U.S., the styling segment showed double-digit growth rates.

In the Bodycare business, sales rose by 7 percent compared with last year. Although Fa sales in the U.S. were disappointing, the market launch of Fa in Australia/New Zealand and in India contributed to the further globalization of the brand. In Germany, the good performance of Fa resulted in a further expansion in market share in relation to shower gels; market leadership in spray deodorants was attained.

In Oral Care, Theramed further stabilized its market share. Skincare performed very well on the basis of numerous innovations and the international introduction of Diadermine; sales of this business rose by 32 percent. Diadermine has, in the meantime, developed into the third strongest skincare brand in Europe.

## Henkel Group Segment Information by Business Sector

### January through September 2000

EUR million	Adhesives	Cosmetics/ Toiletries	Detergents/ Household Cleaners	Hygiene/ Surface Technologies	Cognis	Other	Henkel Group
<b>Sales Jan.–Sept. 2000</b>	<b>2,140</b>	<b>1,491</b>	<b>2,123</b>	<b>1,438</b>	<b>2,181</b>	<b>67</b>	<b>9,440</b>
Sales Jan.–Sept. 1999	1,871	1,347	1,941	1,294	1,900	70	8,423
Change in percent	14.4	10.7	9.4	11.1	14.8	– 5.6	12.1
<b>EBITDA Jan.–Sept. 2000</b>	<b>331</b>	<b>170</b>	<b>238</b>	<b>187</b>	<b>268</b>	<b>– 26</b>	<b>1,168</b>
EBITDA Jan.–Sept. 1999	304	156	231	172	218	– 3	1,078
Change in percent	9.2	9.0	3.0	8.7	22.9	–	8.3
<b>EBITDA Margin (in %)</b>	<b>15.5</b>	<b>11.4</b>	<b>11.2</b>	<b>13.0</b>	<b>12.3</b>	<b>–</b>	<b>12.4</b>
EBITDA Margin (in %)	16.2	11.6	11.9	13.3	11.5	–	12.8
<b>EBIT Jan.–Sept. 2000</b>	<b>193</b>	<b>95</b>	<b>158</b>	<b>121</b>	<b>165</b>	<b>– 28</b>	<b>704</b>
EBIT Jan.–Sept. 1999	185	87	154	107	104	– 5	632
Change in percent	4.5	9.0	2.2	13.7	58.8	–	11.3
<b>EBIT Margin (in %)</b>	<b>9.0</b>	<b>6.4</b>	<b>7.4</b>	<b>8.4</b>	<b>7.6</b>	<b>–</b>	<b>7.5</b>
EBIT Margin (in %)	9.9	6.5	8.0	8.2	5.5	–	7.5
<b>ROCE Jan.–Sept. 2000 (in %)</b>	<b>12.9</b>	<b>14.1</b>	<b>27.7</b>	<b>20.8</b>	<b>12.1</b>	<b>–</b>	<b>14.6</b>
ROCE Jan.–Sept. 1999 (in %)	13.1	13.8	28.4	19.2	9.0	–	14.1
<b>Return on Investment</b>							
<b>Jan.–Sept. 2000 (in %)</b>	<b>11.0</b>	<b>12.2</b>	<b>27.4</b>	<b>20.3</b>	<b>11.9</b>	<b>–</b>	<b>13.6</b>
Return on Investment Jan.–Sept. 1999 (in %)	11.1	11.7	28.3	18.4	8.8	–	13.0
<b>Depreciation/write-ups Jan.–Sept. 2000</b>	<b>138</b>	<b>75</b>	<b>80</b>	<b>66</b>	<b>103</b>	<b>2</b>	<b>464</b>
<b>incl. Amortization of goodwill</b>	<b>67</b>	<b>33</b>	<b>6</b>	<b>11</b>	<b>5</b>	<b>–</b>	<b>122</b>
Depreciation/write-ups Jan.–Sept. 1999	119	69	77	65	114	2	446
incl. Amortization of goodwill	59	30	4	10	5	–	108
<b>Capital expenditures (excl. financial assets)</b>							
<b>Jan.–Sept. 2000</b>	<b>84</b>	<b>30</b>	<b>60</b>	<b>53</b>	<b>77</b>	<b>3</b>	<b>307</b>
Capital expenditures (excl. financial assets)							
Jan.–Sept. 1999	62	35	82	50	92	2	323
<b>Research and development costs (R&amp;D)</b>							
<b>Jan.–Sept. 2000</b>	<b>60</b>	<b>25</b>	<b>50</b>	<b>36</b>	<b>51</b>	<b>12</b>	<b>234</b>
<b>R&amp;D as % of sales</b>	<b>2.8</b>	<b>1.7</b>	<b>2.4</b>	<b>2.5</b>	<b>2.3</b>	<b>–</b>	<b>2.5</b>
Research and development costs (R&D)							
Jan.–Sept. 1999	54	22	44	34	45	8	207
R&D as % of sales	2.9	1.6	2.3	2.6	2.4	–	2.4

The Hair Salon business also made good progress. Sales rose by 24.1 percent during the first nine months of 2000. The relaunches of Bonacure and Igora provided the basis for this success. Exceptionally strong business performance in Asia, particularly Japan, also contributed to this high level of growth. The international launch of the new finish series OSIS has met with high demand.

The **Detergents/Household Cleaners** business sector increased sales by 9.4 percent to EUR 2.1 billion. Operating profit improved by 2.2 percent to EUR 158 million.

Throughout Europe, sales were increased and additional market share gains were achieved.

Heavy-Duty Detergents recorded a sales growth of 13 percent. Particularly gratifying was the performance of this business in France, Benelux, Turkey, Switzerland, Portugal and Eastern Europe. The concentration on main brands continued and led to sales increases for Persil and Spee in Germany, for Super Croix in France and Wipp in Spain.

Significant sales improvements were achieved in new markets, particularly Egypt, Lebanon, India, Israel and Russia. The emerging countries already account for more than 20 percent of the overall heavy-duty detergents business.

In China, the trend is improving. In the U.S., business performance of the Dial-Henkel joint venture remained below expectations.

Sales in Specialty Detergents showed a good development, increasing by 10 percent. Newly launched products such as "Soft&Easy" in the fabric softener and conditioner segment and SVIT in Northern and Western Europe contributed strongly to this result. The established businesses also performed well.

Sales in Household Cleaners rose by 3 percent; after adjusting for the divestment of the SC Johnson business, sales growth amounted to 7 percent. In dishwasher detergents the gap to the market leader in Germany was significantly reduced. The introduction of the innovative WC-Frisch foam in Germany was successful. In Italy and Eastern Europe, particularly in Poland, the launch of the new powerful 2-phase all-purpose cleaner Bref led to substantial sales increases; in Egypt, Pril established itself as undisputed market leader.

The Industrial and Institutional Hygiene/Surface Technologies business sector achieved an increase in sales of 11.1 percent to EUR 1.4 billion. Operating profit improved by 13.7 percent to EUR 121 million.

**Industrial and Institutional Hygiene** (the Henkel-Ecolab joint venture) improved sales by 7.1 percent to EUR 692 million. The 3 percent growth of the Professional Hygiene unit was due to the development in Eastern Europe and the German Hospital Hygiene business. With a sales plus of 7 percent, the Food & Beverage/P3-Hygiene business unit continued to show good growth. Textile Hygiene increased sales by more than 8 percent. New products such as RASANT-X-press, an innovative floor cleaning system, and OXYSAN, a gentle disinfectant for delicate textiles, were launched. In the Institutional Hygiene sector, sales rose by 7 percent compared with the same period last year. With the ECOPLUS-Future range, a new product generation with innovative foldaway packaging was introduced to the market.

The upturn at **Surface Technologies** continued through the third quarter. Compared with the first nine months of the previous year, sales rose by 15.0 percent to EUR 746 million.

The businesses in Europe and all the countries of the Asia/Australia region are enjoying persistently good growth. North America experienced a slowdown in sales growth. Following the recession in the previous year, business in Latin America improved. Activities in Mexico and Chile developed particularly well.

The Automotive division saw their pre-treatment product sales further expand on a worldwide scale, and new contracts for the innovative "Stay-Clean" process were concluded. In the Adhesives and Sealants segment, the situation of the British automotive industry and increasing competitive pressure in the U.S. had an unfavorable effect on results. In France, measures to improve the business situation began to show initial results.

## Henkel Group Consolidated Balance Sheet

	December 31, 1999		September 30, 2000	
	EUR million	%	EUR million	%
Tangible and intangible assets	4,717	47.8	5,035	43.6
Financial assets	787	8.0	1,416	12.3
<b>Fixed assets</b>	<b>5,504</b>	<b>55.8</b>	<b>6,451</b>	<b>55.9</b>
<b>Deferred tax assets</b>	<b>237</b>	<b>2.4</b>	<b>270</b>	<b>2.3</b>
Inventories	1,505	15.3	1,703	14.8
Trade accounts receivable	2,022	20.5	2,412	20.9
Other receivables and miscellaneous assets	447	4.5	529	4.6
Liquid funds/marketable securities	141	1.5	177	1.5
<b>Current assets</b>	<b>4,115</b>	<b>41.8</b>	<b>4,821</b>	<b>41.8</b>
<b>Total assets</b>	<b>9,856</b>	<b>100.0</b>	<b>11,542</b>	<b>100.0</b>
<b>Equity excluding minority interests</b>	<b>2,948</b>	<b>29.9</b>	<b>3,195</b>	<b>27.7</b>
Minority interests	290	3.0	323	2.8
<b>Equity including minority interests</b>	<b>3,238</b>	<b>32.9</b>	<b>3,518</b>	<b>30.5</b>
Provisions for pensions and similar obligations	1,871	19.0	1,979	17.1
Other provisions	1,159	11.7	1,189	10.3
<b>Provisions</b>	<b>3,030</b>	<b>30.7</b>	<b>3,168</b>	<b>27.4</b>
<b>Provisions for deferred tax liabilities</b>	<b>184</b>	<b>1.9</b>	<b>185</b>	<b>1.6</b>
Borrowings	1,915	19.4	2,934	25.5
Trade accounts payable	1,029	10.4	1,125	9.7
Other liabilities	460	4.7	612	5.3
<b>Liabilities</b>	<b>3,404</b>	<b>34.5</b>	<b>4,671</b>	<b>40.5</b>
<b>Total equity and liabilities</b>	<b>9,856</b>	<b>100.0</b>	<b>11,542</b>	<b>100.0</b>
<b>Equity ratio in %</b>		<b>32.9</b>		<b>30.5</b>

## Henkel Group Consolidated Statement of Income

	January – Sept. 1999		January – Sept. 2000	
	EUR million	%	EUR million	%
<b>Sales</b>	<b>8,423</b>	<b>100.0</b>	<b>9,440</b>	<b>100.0</b>
Cost of sales	4,539	53.9	5,106	54.1
<b>Gross profit</b>	<b>3,884</b>	<b>46.1</b>	<b>4,334</b>	<b>45.9</b>
Marketing, selling and distribution costs	2,393	28.4	2,646	28.0
Research and development costs	207	2.4	234	2.5
Administrative expenses	494	5.9	561	5.9
Other operating income	49	0.6	70	0.7
Other operating charges	47	0.6	81	0.8
Restructuring costs	52	0.6	56	0.6
Amortization of goodwill	108	1.3	122	1.3
<b>Operating profit (EBIT)</b>	<b>632</b>	<b>7.5</b>	<b>704</b>	<b>7.5</b>
Net income from participations	59	0.7	130	1.4
Net interest expense	– 193	– 2.2	– 216	– 2.3
<b>Financial items</b>	<b>– 134</b>	<b>– 1.5</b>	<b>– 86</b>	<b>– 0.9</b>
<b>Earnings before tax</b>	<b>498</b>	<b>6.0</b>	<b>618</b>	<b>6.6</b>
Taxes on income	– 219	– 2.7	– 259	– 2.7
<b>Net earnings</b>	<b>279</b>	<b>3.3</b>	<b>359</b>	<b>3.9</b>

## Henkel Group Cash Flow Statement

	Jan.–Sept. 1999	Jan.–Sept. 2000
	EUR million	EUR million
Operating profit	632	704
Income taxes paid	– 190	– 346
Depreciation/write-ups of fixed assets (excl. financial assets)	446	464
Net gains from disposals of fixed assets (excl. financial assets)	– 8	– 9
<b>Cash flow</b>	<b>880</b>	<b>813</b>
Change in inventories	48	– 97
Change in receivables and miscellaneous assets	– 292	– 412
Changes in liabilities and short-term provisions	331	160
<b>Net cash flow from operating activities</b>	<b>967</b>	<b>464</b>
Capital expenditures on intangible assets	– 23	– 12
Capital expenditures on property, plant and equipment	– 300	– 295
Capital expenditures on financial assets	– 9	– 502
Acquisitions	– 76	– 241
Proceeds from disposals of fixed assets	100	58
<b>Net cash flow from investing activities</b>	<b>– 308</b>	<b>– 992</b>
Henkel KGaA dividends	– 119	– 131
Subsidiary company dividends (to other shareholders)	– 17	– 15
Change in borrowings	– 423	826
Interest paid	– 157	– 178
Interest and dividends received	64	83
Share buy-back	–	– 63
Other financing transactions	– 8	15
<b>Net cash flow from financing activities</b>	<b>– 660</b>	<b>537</b>
<b>Change in cash and cash equivalents</b>	<b>– 1</b>	<b>9</b>
Effect of exchange rate changes on cash and cash equivalents	13	27
<b>Change in liquid funds and marketable securities</b>	<b>12</b>	<b>36</b>
Liquid funds and marketable securities on January 1	127	141
Liquid funds and marketable securities on September 30	139	177

As in the preceding quarters, the Industry division gained additional market share. The project initiatives introduced in relation to new technologies and innovations (e.g. Granocoat) continued to show good success in Europe, America and Asia/Australia.

An important step toward further expansion in the emerging markets was taken through the formation of the new joint venture with OAO Plastik in Russia. The joint venture with Cemedine in Japan and the still new activities in Korea and China continued to develop according to plan.

During the first nine months of 2000, the Chemical Products business sector, now an independent company operating under the name **Cognis**, achieved an increase in sales of 14.8 percent to EUR 2.2 billion. This improvement was partly due to favorable foreign exchange rate developments. Operating profit rose by 58.8 percent to EUR 165 million.

Business development at Oleochemicals remained positive. The 20 percent sales increase was particularly attributable to oleochemical base materials, fatty acids and fatty alcohols. This excellent development is due to brisk demand and favorable raw material costs. The Nutrition & Health business was unable to attract the same high sales growth in the third quarter as achieved during the first half of the year. However, sales for the first nine months of 2000 were still above previous year.

Sales of Care Chemicals improved by 10 percent. Active ingredients for the cosmetics industry achieved good sales increases. Higher raw material costs of ethylene oxide and propylene oxide, used in the production of laundry and dishwashing detergents and household cleaners, were offset by price increases. New applications were developed in wound dressing and paper hygiene products for the innovative product Chitosan. Chitosan is manufactured from chiton shells.

At Organic Specialty Chemicals sales rose 10 percent. This positive development is attributable in particular to business expansion in products for the paint and coatings industry and also for the textile and plastics industries. Business in lubricant additives was adversely affected by a slump in production in the U.S. heavy truck industry.

## Major Participations

Ecolab Inc., St. Paul, Minnesota, U.S., in which Henkel holds a participating interest of 25 percent, registered a growth in sales of 9 percent to US\$ 1.7 billion in the first nine months of 2000.

This continuing high level of performance was attributable to positive business developments in all regions coupled with the successful introduction of new products and services. Net earnings in the period under review rose by 13 percent to US\$ 151 million.

The Clorox Company, Oakland, California, U.S., in which Henkel has a shareholding of 26.7 percent, achieved a 5 percent increase in sales to US\$ 985 million during the first quarter of the fiscal year 2000/2001. At US\$ 98 million, net earnings exceeded the level of the previous year by 13 percent. This was mainly due to the successful introduction of new products and strong international growth.

## Employees

As of September 30, 2000, the number of employees at the Henkel Group was 59,902. The proportion of Henkel personnel working outside Germany was 74 percent.

### Employees

(as of)	Dec. 31, 1999	Sept. 30, 2000	Change in %
Germany	15,412	15,871	3.0
Abroad	40,984	44,031	7.4
<b>Total</b>	<b>56,396</b>	<b>59,902</b>	<b>6.2</b>

## Outlook

With all business sectors continuing to perform well through the first nine months of this year, we remain confident of achieving record profits for the Henkel Group for the full year 2000. We expect to reach sales of at least EUR 12.5 billion, as well as a double-digit increase in operating profit and earnings per share.

This firm prediction is based on sound organic growth in all business sectors.

Henkel KGaA  
The Management Board

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### Next important dates

Publication of  
Annual Report 2000  
and  
Press Conference on Fiscal 2000  
and Analysts' Meeting:  
Monday, March 19, 2001

Annual General Meeting  
of Henkel KGaA  
and publication of the quarterly  
report for  
January through March 2001:  
Monday, April 30, 2001

Publication of the interim report for  
January through June 2001:  
Thursday, August 9, 2001

Publication of the quarterly report for  
January through September 2001  
and  
Fall Press Conference  
and Analysts' Meeting:  
Monday, November 12, 2001