

## Information for Our Shareholders

on Business Performance January through June 2000

Henkel



### **purDOS: simple, safe and cost-efficient**

A major innovation: **Henkel-Ecolab's purDOS is the world's first automatic dosage system** for high-concentrate paste-form detergents for small and medium-sized washing machines. This newly launched system means that hospitals, care homes, hotels and small laundries can operate much more economically and safely than before. purDOS is extracted straight from its packaging using **patented Henkel-Ecolab technology**, and then mixed with water for delivery into the washing machine. An integrated inductive conductivity meter controls the dosage operation for outstanding mix ratio accuracy. This **precision detergent dispensing system** thus offers the dual benefits of cost-efficiency and reduced environmental burden. purDOS is easy to use, safe and economical.

- ▶ Strong growth in sales and profits
- ▶ Improvements in every business sector
- ▶ Market shares expanded in important segments

## Sales and Profits

From January through June 2000 the Henkel Group realized sales of EUR 6.2 billion. This represents an 11.4 percent increase over the same period last year. Established business grew by 6.8 percent (organic growth), foreign exchange factors contributed 4.5 percentage points to sales growth, acquisitions/divestments constituted a positive influence of 0.1 percentage points.

Sales of the companies in Germany rose by 5.3 percent while the companies abroad achieved an increase in sales of 13.6 percent. Sales in North America grew by 14.2 percent, and in Latin America by 20.4 percent. An increase in sales of 36.6 percent was achieved in Asia/Australia.

Operating profit (EBIT) stood at EUR 462 million, 13.3 percent up on the EUR 408 million of the same period last year. The business sectors Adhesives, Industrial and Institutional Hygiene/Surface Technologies and Cognis all registered double-digit growth rates. The return on investment improved to 13.5 percent (previous year: 12.4 percent).

With an increase of 5.9 percent to EUR 595 million, the cash flow of the Henkel Group showed very good progress during the first six months of 2000. The increase is particularly due to a higher operating profit.

Net earnings for the half year amounted to EUR 245 million. This represents an increase of 36.9 percent.

## Major Events

In May 2000 Henkel and the Algerian ENAD Group established a detergents joint venture, Henkel ENAD Algérie (HEA), in which Henkel owns 60 percent and ENAD 40 percent. HEA has the ownership of the ISIS brand and of the two ENAD factories, one in Ain Témouchent, the other in Algiers. The joint venture is expected to achieve annual sales of around EUR 120 million. Its formation represents a strategic step toward expansion of the detergents business beyond Algeria to the entire North African region.

## Henkel Group January – June 2000

Sales	Jan.–June 1999	Jan.–June 2000	Change
breakdown by	EUR million	EUR million	in percent
<b>product sector</b>			
Adhesives	1,229	1,405	14.4
Cosmetics/Toiletries	893	979	9.7
Detergents/Household Cleaners	1,278	1,361	6.5
I&I Hygiene/Surface Technologies	850	951	11.9
Cognis	1,259	1,442	14.6
Other	43	46	—
<b>Total</b>	<b>5,552</b>	<b>6,184</b>	<b>11.4</b>
<b>Sales breakdown by region</b>			
Germany	1,491	1,570	5.3
Rest of Europe	2,441	2,651	8.6
North America	920	1,051	14.2
Latin America	211	254	20.4
Africa	65	79	21.5
Asia/Australia	424	579	36.6
<b>Total</b>	<b>5,552</b>	<b>6,184</b>	<b>11.4</b>

At the end of June, the Henkel US subsidiary Loctite Corporation signed a contract with Dexter Corporation, Windsor Locks, Connecticut, USA, for the purchase of a significant share of Dexter's specialty polymers business. The deal is currently awaiting the requisite regulatory antitrust clearances. The business portfolio comprises adhesives for the electronics manufacturing sector, the automotive and the aerospace industries. In 1999 this business recorded sales of EUR 220 million.

This takeover places Loctite at the forefront as a leading supplier to the rapidly growing electronics segment and consolidates its business links to the world's major manufacturers of computers and telecommunications equipment. Dexter's epoxy technologies will also provide Henkel with a launch pad for expanding business with the aerospace industry.

On July 15, 2000 the well-known European fertilizer and plant care brand Substral was sold to The Scotts Company, Columbus, Ohio, USA, in a deal scheduled to take effect at year-end. In 1999 the Substral business recorded sales of about EUR 22.5 million. This step enables Henkel to concentrate even more fully on the core activities of the Detergents/Household Cleaners business sector.

Henkel and the Lion Corporation of Japan have agreed on the formation of a joint venture for the hair colorants business in Japan. To this end, Lion has acquired from Henkel a 48.5 percent interest in the Japanese colorants manufacturer Yamahatsu. Henkel and Lion will jointly operate their hair colorants businesses via Yamahatsu.

### Development of Business Sectors

The **Adhesives** business sector increased sales by 14.4 percent to EUR 1.4 billion. Operating profit grew by 12 percent to EUR 130 million. All three divisions - Consumer and Craftsmen Adhesives, Industrial and Packaging Adhesives, and Engineering Adhesives - contributed to this positive development. Performance in Europe, North and South America and Asia/Australia was particularly encouraging.

Consumer and Craftsmen Adhesives succeeded in further expanding their share in a number of major markets. The increase in sales worldwide amounted to 10 percent. Growth was particularly boosted by developments in the do-it-yourself sector and through the launch of new bonding and correction products. The ongoing globalization of business through the introduction of selected brand products in important world markets also contributed to the positive sales performance. A 21 percent sales growth was achieved in North America while the improvement in Asia/Australia amounted to 37 percent.

Industrial and Packaging Adhesives continued their very good growth from the first quarter, increasing sales by 16 percent over the same period last year. This positive trend was encouraged by the increasingly benign economic situation of customers worldwide. The market positions enjoyed by the labeling, bookbinding and wood adhesives were strengthened. Liofol laminating adhesives also expanded their leading market position. The pronounced globalization of these businesses resulted in overproportionate growth rates overseas. While a 13 percent increase was achieved in Europe, in North and South America the improvement amounted to 20 and 21 percent respectively, while Asia/Australia recorded a plus of 31 percent.

Engineering Adhesives (Loctite) likewise continued their excellent performance through the second quarter of this year. Sales for the six months were 21 percent up on last time. The "Multicore" unit of Kelsey Industries plc (UK), acquired in February, has been incorporated retrospectively with effect from January 1, 2000. Multicore specializes in soldering materials for PCB assembly applications, and the takeover thus reinforces Loctite's position in the electronics segment. Even without this acquisition, Engineering Adhesives recorded a commendable organic growth rate of 16 percent. Against the background of an increasingly positive economic environment, there was an appreciable revival in business activity among the customer industries in Europe. Sales there rose 8 percent. Organic growth in North and South America was likewise encouraging. All the countries of Asia/Australia registered double-digit growth rates. Overall, sales in this region rose by 43 percent over the first half of last year.

The **Cosmetics/Toiletries** business sector increased sales by 9.7 percent to EUR 979 million. Businesses in Germany, Russia, North America and Asia/Australia developed positively. Following the acquisition of Yamahatsu, the Cosmetics/Toiletries business sector is now also well represented in the colorants segment of the Japanese cosmetics market, the second largest in the world. In China a package of measures has been introduced to improve profitability. Operating profit increased by 3.1 percent to EUR 64 million. There was a significant increase in marketing activity compared to the previous year aimed at strengthening the brands and their market positions.

Hair Cosmetics increased sales by 7 percent during the first half year and further consolidated the number-two position in Europe due to significant market share gains. In the colorants segment, the brands Country Colors, Diadem/Soyance, Vital Colors and Live all underwent a thorough review. The colorant lines Live and Brilliance were introduced onto the Italian, Spanish, British and Tunisian markets. The Hair Care business also performed well backed by the relaunches of Poly Kur and Gliss Kur, and the introduction of a new foam variant, Color Shine. Sales in the styling products segment profited from the launch of the Taft line in France and also the good performance of the two brands L.A. Looks and Dep in the USA.

## Henkel Group Segment Information by Business Sector January through June 2000

EUR million	Adhesives	Cosmetics/ Toiletries	Detergents/ Household Cleaners	I & I Hygiene/ Surface Technologies	Cognis	Other	Henkel Group
<b>Sales Jan.–June 2000</b>	<b>1,405</b>	<b>979</b>	<b>1,361</b>	<b>951</b>	<b>1,442</b>	<b>46</b>	<b>6,184</b>
Sales Jan.–June 1999	1,229	893	1,278	850	1,259	43	5,552
Change in percent*	14.4	9.7	6.5	11.9	14.6	4.1	11.4
<b>EBIT Jan.–June 2000</b>	<b>130</b>	<b>64</b>	<b>96</b>	<b>80</b>	<b>112</b>	<b>– 20</b>	<b>462</b>
EBIT Jan.–June 1999	116	62	96	69	66	– 1	408
Change in percent*	12.0	3.1	0.4	15.9	69.2	–	13.3
<b>Return on Sales Jan.–June 2000 (%)</b>	<b>9.2</b>	<b>6.5</b>	<b>7.1</b>	<b>8.4</b>	<b>7.8</b>	<b>–</b>	<b>7.5</b>
Return on Sales Jan.–June 1999 (%)	9.4	7.0	7.5	8.1	5.3	–	7.3
<b>Return on Investment Jan.–June 2000 (%)</b>	<b>11.1</b>	<b>12.3</b>	<b>27.3</b>	<b>20.4</b>	<b>12.2</b>	<b>–</b>	<b>13.5</b>
Return on Investment Jan.–June 1999 (%)	10.3	12.3	26.1	17.7	8.4	–	12.4

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

The Bodycare business increased sales by 12 percent. Activities here focused on the international relaunch of Fa.

Although competition is tough in the oral care market, the business was able to maintain its market share in Europe. The Skincare segment performed well due to numerous innovations and the launch of Diadermine in Germany. The Diadermine line is also scheduled for introduction in other European countries.

The Hair Salon business also realized positive sales growth, with an increase for the first half of 2000 of 24 percent to EUR 161 million. This further improvement was founded on the outstanding market reception given to the colorant series Igora Royal and Igora Personality, and the successful relaunch of Natural Styling.

The **Detergents/Household Cleaners** business sector increased sales by 6.5 percent to EUR 1.4 billion. Operating profit improved 0.4 percent to EUR 96 million.

Heavy-duty detergents recorded sales growth of 9 percent. Throughout Europe, Henkel succeeded in reducing the gap to the market leader. In the concentrates segment, Henkel succeeded in gaining market leadership. The sustained upturn in business performance that has occurred outside Europe, particularly in Egypt, Lebanon, Russia, India, Israel and Tunisia, was especially favorable. Due to heavy competition in the USA, sales in Purex Advanced

at the Dial Henkel joint venture were below plan. Business in China showed an improvement in the second quarter of 2000, but remained negative.

Special detergents also developed positively (sales increase: 9 percent). This improvement was due in particular to innovative product concepts such as Vernel Soft & Easy, the launch of SVIT in Central and Northern Europe, and the popularity of Futura bleach products in Spain and Portugal. A leading position in the new “easy ironing” market segment was attained with the successful pan-European rollout of Vernel Soft & Easy.

Sales of household cleaners rose by 2 percent; adjusted for the divestment of the SC Johnson business, organic growth amounted to 6 percent. One of the best selling products is Somat 2 in 1. The Household Cleaner business recorded exceptional increases in both sales and market share in Italy.

The **Industrial and Institutional Hygiene/Surface Technologies** business sector achieved an increase in sales of 11.9 percent to EUR 951 million. Operating profit increased by 15.9 percent to EUR 80 million.

The Henkel-Ecolab joint venture increased sales by 8 percent to EUR 452 million. Growth in the Professional Hygiene business amounted to 6 percent. This increase was borne in particular by strong growth in the German Hospital Hygiene business and in the markets of Eastern Europe, and also by the successful marketing of system-supported cleaning products to national building cleaning companies. With a sales plus of 7 percent, the Food & Beverage / P3 Hygiene division also continued to show good growth. The Textile Hygiene business increased sales by 8 percent. The European rollouts of purDOS, a patented dosing system for small laundries, and H.E.R.O., a system for wastewater treatment in large laundries, were successful. Sales of Institutional Hygiene also rose 8 percent. Especially the Italian business performed exceptionally well due to several product launches.

Surface Technologies profited from the continuing strong business environment worldwide, with further growth ensuing during the second quarter.

Sales during the first half year rose by 16 percent to EUR 499 million.

Significant sales growth and further market share gains were achieved in all regions. Both divisions - Automotive and Industry - equally shared in this positive development. The businesses in Latin America, South Africa and Turkey have recovered well from the recession of the previous year.

The project initiatives geared to expanding our leading worldwide positions on the basis of new technologies and innovations (including Terocore and Granocoat) were increasingly successful in Europe, the Americas and Asia/Australia. The emerging business activities in Korea (Hong Seong) and Chile, and the new joint ventures in China (Wuhan and Changchun) achieved overproportionate growth. The cooperation with Cemedine in Japan showed first successes at Honda.

The results of the Adhesives and Sealants division were negatively influenced by uncertainty in the British automotive industry, price problems with manufacturers in France and increasing competitive pressures in the USA. However, the good overall performance of the business remained largely unaffected.

During the first half year of 2000, the Chemical Products business sector, now an independent company operating under the name **Cognis**, achieved an increase in sales of 14.6 percent to EUR 1.4 billion. Operating profit rose by 69.2 percent to EUR 112 million.

The Oleochemicals business continued to perform well. The sales increase of 18 percent was particularly due to results achieved with oleochemical base materials, fatty acids and fatty alcohols, and products for the Nutrition & Health sector. The favorable development in oleochemical base materials is attributable to higher prices for fatty acids and glycerine, lower raw material costs and the achievement of higher sales volumes.

Sales of Care Chemicals were up 9 percent. Good sales growth was achieved with active ingredients for the cosmetics industry. Higher raw material and manufacturing costs of base surfactants for laundry and dishwashing detergents and household cleaners could not be passed on in full to the market.

At Organic Specialty Chemicals sales rose 10 percent. Sales to the plastics processing and also the paints and coatings industries have shown a significant upturn, particularly in Europe, Asia/Australia and Latin America. This is due inter alia to the realignment of the portfolio toward high value-added products. Market leadership was achieved with fiber finishes for polyacrylics. The decision by Daimler-Chrysler to use Henkel transmission oils throughout Europe constitutes a significant milestone.

## Henkel Group Consolidated Balance Sheet

	December 31, 1999		June 30, 2000	
	EUR million	%	EUR million	%
Tangible and intangible assets	4,717	47.8	4,859	46.0
Financial assets	787	8.0	907	8.6
<b>Fixed assets</b>	<b>5,504</b>	<b>55.8</b>	<b>5,766</b>	<b>54.6</b>
<b>Deferred tax assets</b>	<b>237</b>	<b>2.4</b>	<b>251</b>	<b>2.4</b>
Inventories	1,505	15.3	1,621	15.4
Accounts receivable and miscellaneous assets	2,469	25.0	2,772	26.2
Liquid funds/marketable securities	141	1.5	145	1.4
<b>Current assets</b>	<b>4,115</b>	<b>41.8</b>	<b>4,538</b>	<b>43.0</b>
<b>Total assets</b>	<b>9,856</b>	<b>100.0</b>	<b>10,555</b>	<b>100.0</b>
<b>Equity excluding minority interests</b>	<b>2,948</b>	<b>29.9</b>	<b>3,026</b>	<b>28.7</b>
Minority interests	290	3.0	295	2.8
<b>Equity including minority interests</b>	<b>3,238</b>	<b>32.9</b>	<b>3,321</b>	<b>31.5</b>
Provisions for pensions and similar obligations	1,871	19.0	1,926	18.2
Other provisions	1,159	11.7	1,218	11.6
<b>Provisions</b>	<b>3,030</b>	<b>30.7</b>	<b>3,144</b>	<b>29.9</b>
<b>Provisions for deferred tax liabilities</b>	<b>184</b>	<b>1.9</b>	<b>189</b>	<b>1.8</b>
Borrowings	1,915	19.4	2,269	21.5
Trade accounts payable	1,029	10.4	1,099	10.4
Other liabilities	460	4.7	533	5.0
<b>Liabilities</b>	<b>3,404</b>	<b>34.5</b>	<b>3,901</b>	<b>36.9</b>
<b>Total equity and liabilities</b>	<b>9,856</b>	<b>100.0</b>	<b>10,555</b>	<b>100.0</b>

## Henkel Group Consolidated Statement of Income

	January – June 1999		January – June 2000	
	EUR million	%	EUR million	%
<b>Sales</b>	<b>5,552</b>	<b>100.0</b>	<b>6,184</b>	<b>100.0</b>
Cost of sales	2,996	54.0	3,354	54.2
<b>Gross profit</b>	<b>2,556</b>	<b>46.0</b>	<b>2,830</b>	<b>45.8</b>
Selling and distribution costs	1,584	28.5	1,740	28.1
Research and development costs	138	2.5	153	2.5
Administrative expenses	325	5.9	358	5.8
Other operating income	30	0.5	37	0.6
Other operating charges	24	0.4	38	0.6
Restructuring costs	36	0.6	37	0.6
Amortization of goodwill	71	1.3	79	1.3
<b>Operating profit (EBIT)</b>	<b>408</b>	<b>7.3</b>	<b>462</b>	<b>7.5</b>
Financial items	– 88	– 1.6	– 44	– 0.7
<b>Earnings before tax</b>	<b>320</b>	<b>5.7</b>	<b>418</b>	<b>6.8</b>
Taxes on income	– 141	– 2.5	– 173	– 2.8
<b>Net earnings</b>	<b>179</b>	<b>3.2</b>	<b>245</b>	<b>4.0</b>

## Henkel Group Cash Flow Statement

	Jan.–June 1999	Jan.–June 2000
	EUR million	EUR Million
<b>Operating profit</b>	408	<b>462</b>
Income taxes paid	– 133	– 166
Depreciation/Write-ups of fixed assets (excl. financial assets)	293	304
Net gains from disposals of fixed assets (excl. financial assets)	– 6	– 5
<b>Cash flow</b>	562	<b>595</b>
Change in inventories	59	– 66
Change in receivables and miscellaneous assets	– 316	– 258
Changes in liabilities and short-term provisions	189	110
<b>Net cash flow from operating activities</b>	494	<b>381</b>
Capital expenditure on intangible assets	– 14	– 6
Capital expenditure on property, plant and equipment	– 184	– 191
Capital expenditure on financial assets	– 48	– 71
Acquisitions	– 30	– 173
Proceeds from disposals of fixed assets	29	29
<b>Net cash flow from investing activities</b>	– 247	<b>– 412</b>
Henkel KGaA dividends	– 119	– 131
Subsidiary company dividends (to other shareholders)	– 14	– 11
Change in borrowings	– 37	314
Interest and dividends received	46	37
Interest paid	– 114	– 111
Share buy-back	0	– 40
Other financing transactions	– 15	– 41
<b>Net cash flow from financing activities</b>	– 253	<b>17</b>
Change in cash and cash equivalents	– 6	– 14
Effect of exchange rate changes on cash and cash equivalents	13	18
<b>Change in liquid funds and marketable securities</b>	7	<b>4</b>
Liquid funds and marketable securities on January 1	127	141
Liquid funds and marketable securities on June 30	134	145

## Research / Technology

Major changes in the industrial and technological environment require new structures for the Research / Technology corporate sector. The development of new business activities, the creation of strategic response options and new methods of securing innovative developments now take priority.

Research / Technology is thus pursuing the following strategic goals:

- ▶ Expansion of core competencies
- ▶ New forms of cooperation with universities
- ▶ Entry into new technologies through venture capital funds and direct participation in start-ups

As a commitment to the attainment of these objectives, Henkel intends to invest between EUR 100 million and EUR 150 million in such projects over the next few years.

An example of this strategy is the venture capital participation in Vermicon AG, Munich. This two-year-old company is responsible for the development of the so-called FISH technology with which micro-organisms can be identified more quickly and accurately than with previously applied methods. The principal viability of the FISH technology was confirmed in cooperation with the Institute for Microbiology at the Technical University of Munich. With this identification system, new effects of cosmetic and detergent ingredients on skin micro-flora can be determined and investigated in detail.

Research and product development activities have led to innovations for mild laundry detergents and machine dishwashing detergents that further optimize the performance and in-service behavior of these products. A new process has been established for the manufacture of defoamers offering improved performance.

In the search for new technologies, investigations are currently being conducted into the use of magnetic nano-particles in environmental protection applications. Advanced test systems have been devised for the development of new adhesives that enable the fast and efficient identification of high-performance products.

## Major Participations

Ecolab Inc., St. Paul, Minnesota, USA, in which Henkel holds a 25 percent interest, achieved a sales increase of 9 percent to 1.1 billion US\$ in the first half of 2000. Ecolab benefited from the positive development in the USA and the excellent business in Latin America. Net earnings for the period rose by 16 percent to 91 million US\$.

The Clorox Company, Oakland, California, USA, in which Henkel holds a 26.8 percent interest, achieved an increase in sales of 2 percent to 4.1 billion US\$ in its 1999/2000 fiscal year. Net earnings reached a new record high at 394 million US\$, an increase of 60.2 percent. The successful introduction of new products, strong international growth especially in Latin America, as well as 90 million US\$ of synergies realized following the integration of First Brands were decisive in the excellent performance.

## Capital Expenditures

Additions to fixed assets during the first half of 2000 amounted to EUR 191 million. These were essentially attributable to projects in the Brand-Name Products, Adhesives and Chemical Products sectors.

## Employees

As of June 30, 2000 the number of employees at the Henkel Group was 57,635. The proportion of Henkel personnel working outside Germany was 73 percent.

### Employees

(as of)	Dec. 31, 1999	June 30, 2000	Change in %
Germany	15,412	15,570	1.0
Abroad	40,984	42,065	2.6
<b>Total</b>	<b>56,396</b>	<b>57,635</b>	<b>2.2</b>

## Outlook

With all the business sectors continuing to perform well through the first half of 2000, we are confident to achieve our targets for the year 2000. We expect sales of EUR 12.5 billion and a double-digit increase in earnings per share.

Particular emphasis has been placed this year on achieving good organic growth in our core businesses. With the introduction of new products and the development of new markets, our established operations have thrived in the first half of 2000. Through our research, further innovations and strategically important acquisitions, we will continue to create a sound basis for sustaining this organic growth beyond 2000.

Henkel KGaA  
The Management Board

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### Next important dates:

Publication of interim 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