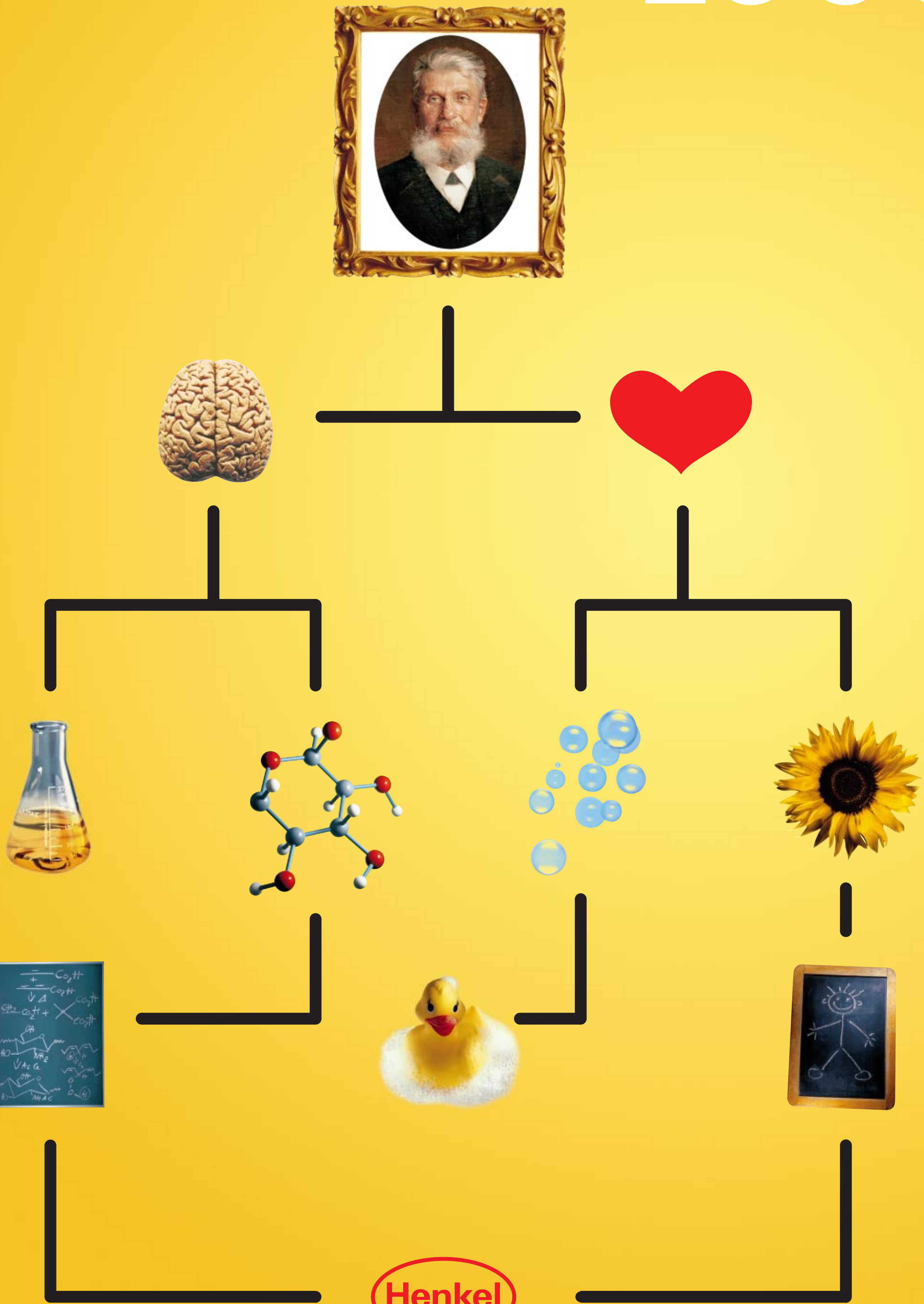
Our 122nd Year

1998



SCIENCE + SOUL

Henkel Group Financial Highlights

(figures in DM millions unless stated otherwise)	1997	1998	1998 (EUR mill.)
Sales	20,065	21,336	(10,909)
Chemical Products	4,851	4,881	(2,495)
Surface Technologies	1,632	1,703	(871)
Adhesives	4,237	4,639	(2,372)
Cosmetics/Toiletries	2,972	3,335	(1,705)
Detergents/Household Cleansers	4,636	4,919	(2,515)
Industrial and Institutional Hygiene	1,498	1,615	(826)
Other [1]	239	244	(125)
Operating profit	1,373	1,547	(791)
Earnings before taxes on income	988 [2]	1,259	(644)
Net earnings	626 [3]	727	(372)
Cash flow	2,035 [4]	2,083	(1,065)
– as % of sales	10.1	9.8	
Shareholders' equity [5]	5,563	5,532	(2,829)
Capital expenditure	4,161	1,915	(979)
Research and development costs	466	489	(250)
Number of employees (annual average)	53,800	56,300	

1) secondary activities and general expenses
2) pre-tax earnings including gain from sale of GFC shareholding (Degussa): DM 1,957 million
3) net earnings including profit from sale of GFC shareholding (Degussa): DM 1,127 million
4) restated to match new method of calculation
5) including minority interests

Henkel KGaA

	1997 DM	1998 DM	1998 (EUR)
Dividend per ordinary share	1.35	1.55*	(0.79)
with tax credit	1.92	2.21	(1.13)
Dividend per preferred share	1.45	1.65*	(0.84)
with tax credit	2.07	2.35	(1.20)
Total dividends	203.0	232.2*	(118.7)

* proposed

Our Mission Statement

*"We are ready to meet the economic and ecological challenges of the 21st century.
We assure Henkel's position as a top international company.
This goal guides our actions.
Through applied chemistry and expert service, we make people's lives easier, safer and better.
We are dedicated to helping our customers improve their own performance and meet their requirements.
We manage change and we are proud of our achievements."*

Henkel

Dear Shareholders,

We are pleased to report another successful year for Henkel in 1998.

With a 16 percent increase in net earnings to DM 727 million and sales growth of 6 percent to DM 21.3 billion, we have again posted significantly improved results.

This performance has been achieved despite a more difficult economic climate. Therefore, we want to cordially thank our employees all over the world for their contribution to the Company's success in 1998.

The good progress made by our various businesses last year has reaffirmed the validity of our strategic decisions:

- The increased globalization of all our business sectors is creating opportunities for growth. It is also making us less dependent on regional economic conditions and helping to balance the spread of risk.
- The policy of concentrating on our core activities is accelerating the development of specialized expertise and strengthening our competitive position in the marketplace.
- Routine assessment of our business portfolio is helping us to focus on profitable product sectors and consequently better realize our earnings potential.
- The new research organization, with its emphasis on teamwork and project orientation, has had the desired effect of making us more responsive to customer requirements and has reduced the time-to-market of new products. It has also enabled us to strengthen our innovative capability.

Henkel's motto for 1998 was "Year of Simplification". Spurred on by this campaign, we have greatly simplified working procedures and improved our business processes and internal control systems, with particular emphasis on responsiveness to the market and relations with customers.

Our growth strategy – organic growth supplemented by selective acquisitions and joint ventures – has brought us additional critical mass in all business sectors and product groups enabling us to succeed in an increasingly competitive international environment.

The regulations contained in the German Law on Corporate Governance and Transparency (KonTraG) were applied in full to our risk management system in fiscal 1998.

The Group's total currency exposure and interest rate risks are centrally controlled with the help of modern systems and the expertise of experienced staff. The increased volatility of financial markets around the world has confirmed the need for efficient, fast-moving interest rate and foreign currency management as an important part of our risk management system.

Ongoing globalization makes exacting demands on our organization and management structure. Consequently, the development of international management talents is becoming increasingly important in our training programs, and we are raising the proportion of non-German management personnel throughout the Henkel Group.

Albrecht Woeste,
Chairman of the Supervisory Board and of the Shareholders' Committee (left)
and Hans-Dietrich Winkhaus,
President and Chief Executive Officer.

We believe in a style of corporate management based on shareholder value and aimed at meeting the expectations of shareholders, customers and employees alike.

At all levels, we have established performance-related and target-based systems of management development and compensation geared to increasing shareholder value. These range from a stock option program for senior management and carefully differentiated incentive systems to profit-related bonuses for non-exempt employees.

The introduction of the Euro has major implications for our sales and marketing strategies. Our computer systems have also had to be adjusted accordingly. Our prompt and intensive preparations for the Euro have enhanced our ability to maintain our position in the more competitive environment forecast for the Euro zone.

The "Millennium Bug" is another major concern for us. Computer systems often store only the last two digits of the year date in their memory, and this could lead to errors and disruptions in information and control systems with the changeover to the year 2000. We have carried out an in-depth and systematic appraisal of the "Y2K" problem and set up special teams all over the world to prepare for the turn of the millennium.

We regularly review the organization of the Henkel Group in order to maximize efficiency and synergies in international markets and to ensure that our business sectors have the necessary room to maneuver in changing market conditions.

This latter objective was of particular concern to us last year. After careful consideration of various alternatives, we have decided to carve out the Chemical Products business and establish it as a separate legal entity under the name “Cognis”.

Subject to your approval at the Annual General Meeting on May 3, 1999, this will create a powerful world-leading specialty chemicals company with sales worth around DM 5 billion and an international workforce of around 10,000 employees.

This far-reaching decision is Henkel’s response to the process of change in the international chemical industry.

The new structure - as an independent company still owned by Henkel - gives our chemicals business the necessary flexibility and scope for action which it will need in the future to build on its success in increasingly international markets.

We intend to implement the carve-out later this year, after approval of the Annual General Meeting.

The initial reactions of the financial markets have been encouraging. This positive response leads us to believe that we were able to demonstrate that this move supports our goal to further secure Henkel’s future as a profitable business for its employees, shareholders and customers.

This goal and our corporate identity are the subject of our new international image campaign. We have chosen the campaign slogan “Science + Soul” to express how we are dedicating all our innovative capability, competence and quality assurance – supplemented by customer orientation, a keen sense of responsibility and motivation – to create added value for our customers, employees and shareholders. Some of the key points of the campaign are illustrated for you in this Annual Report.

We are forecasting further positive progress for our businesses, with a 1999 sales target of more than DM 22 billion.

We will also use our best endeavors to increase earnings again, despite the more difficult economic environment that is likely to prevail.

Henkel is in good shape for the year 2000 and beyond.

Albrecht Woeste
Chairman of the Supervisory Board
and of the Shareholders’ Committee

Hans-Dietrich Winkhaus
President and
Chief Executive Officer

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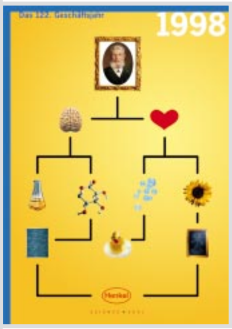
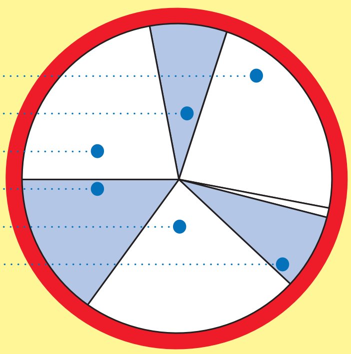


Front cover: A symbolic family tree headed by the Company's founder, Fritz Henkel, illustrates how the corporate identity of the Henkel Group has developed to the present day. The ideals embodied in our mission statement are succinctly expressed in our new image campaign: "Science + Soul".

Analysis of Sales by Product Division



Business sectors at a glance

Chemical Products

Henkel is the world's largest processor and manufacturer of oils and fats based on renewable raw materials. We produce and sell oleochemical base materials, feedstock products for the cosmetics, detergents and pharmaceutical industries, organic specialty chemicals, and water glass. The business sector maintains production facilities in all the major economic regions of the world.

Surface Technologies

Henkel is the worldwide market and technological leader in this field. The business sector develops, produces and markets products and application systems for the surface treatment of metals and metal substitutes. It also offers a comprehensive range of technical support services.

Adhesives

Henkel is the number one on the world adhesives market, offering a product portfolio of unmatched scope. This includes products for craftsmen and end consumers as well as industrial and packaging adhesives, industrial reactive adhesives and high-performance sealants.

Cosmetics / Toiletries

Henkel is a leading supplier of cosmetics and toiletries in Europe. The company also occupies expandable market positions in highly promising growth markets outside Europe. The core segments of the business are hair cosmetics, toiletries, oral and skincare and hair salon products.

Detergents / Household Cleansers

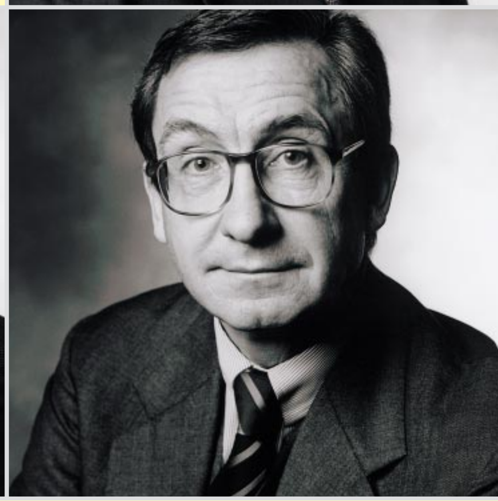
Henkel holds a leading position in Europe in the detergents and household cleansers market. Henkel is also exploiting its growth opportunities in the detergents and household cleansers sector in the upcoming markets of the Mediterranean region and in Asia.

Industrial and Institutional Hygiene

Our professional cleaning and hygiene business is operated in Europe as a joint venture, Henkel-Ecolab, in collaboration with our American partner Ecolab Inc., St. Paul, Minnesota, USA. The joint venture counts among the leading suppliers in Europe. Together, Henkel-Ecolab and Ecolab Inc., in which Henkel has a participating interest of about 22 percent, are world market leaders in the industrial and institutional hygiene sector.

Dr. Hans-Dietrich Winkhaus
President and Chief Executive Officer, Personally Liable Partner of Henkel KGaA (61). Traineeship in banking; studied business administration in Munich, Münster, Germany, and Lausanne, Switzerland. With the company for the last 32 years. Head of the Detergents / Household Cleansers business sector from 1985 to 1991.

Dr. Jochen Krautter
Executive Vice President Surface Technologies / Information Systems (56). Studied industrial engineering in Karlsruhe, Germany; doctorate obtained at the University of Mannheim, Germany; scholarship at Stanford University, USA. With the company for the last 25 years. Formerly Managing Director of Henkel Belgium and Henkel Netherlands.



Dipl.-Ing.
Guido De Keersmaecker
Executive Vice President Adhesives (56). Graduated in civil engineering in Leuven and took his MBA in Gent, Belgium. With the company for the last 22 years. Formerly President of the Henkel France Group.

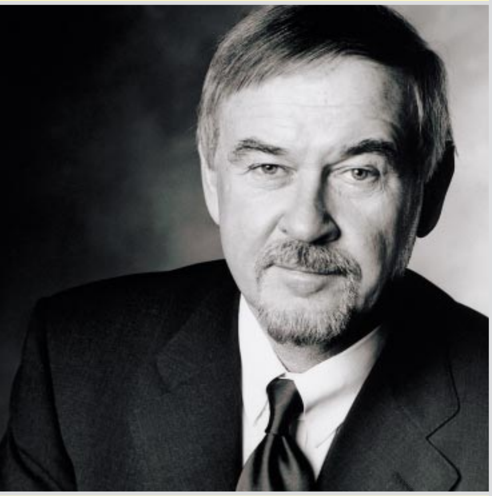
Dr. Ulrich Lehner
Executive Vice President Finance / Logistics (52). Studied business administration and mechanical engineering in Darmstadt, Germany; professionally qualified tax consultant and auditor. With the company for the last 15 years. Formerly CEO of the management holding company Henkel Asia Pacific, Hong Kong.

Dr. Klaus Morwind

Executive Vice President Detergents / Household Cleansers and Personally Liable Partner of Henkel KGaA (55). Studied business administration and informatics in Vienna, Austria. With the company for the last 30 years. Formerly Member of the Management Board of Persil Ges.mbH., Vienna, Austria.

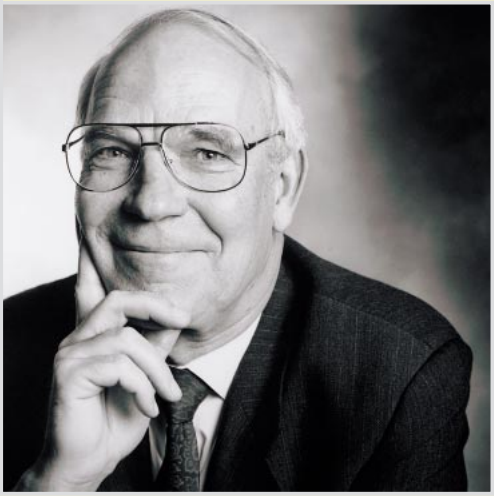
Dr. Roland Schulz

Executive Vice President Personnel and Industrial and Institutional Hygiene; Personally Liable Partner of Henkel KGaA (57). Commercial traineeship; studied business administration in Munich, Germany; Scientific Assistant at the Institute for Marketing at the University of Münster. With the company for the last 27 years. Formerly Corporate Vice President Detergents, Germany.



Prof. Dr. Uwe Specht

Executive Vice President Cosmetics / Toiletries and Personally Liable Partner of Henkel KGaA (55). Studied economics in Freiburg, Cologne and Bonn, Germany. With the company for the last 30 years. Formerly Head of Product Management, Universal Detergents, Henkel France S.A.



Dr. Harald Wulff

Executive Vice President Chemical Products (59). Studied chemistry in Marburg and Heidelberg, Germany. With the company for the last 19 years. Formerly President and CEO of the Henkel Corporation, Gulph Mills, USA.

With growth well into double-digit figures our earnings hit a new record level in 1998. Sales and earnings were higher in all business sectors.

1998 was another successful year for Henkel.

We were able to post a 16 percent increase in net earnings for the year, from DM 626 million (excluding the profit from the disposal of the GFC shareholding) to a new high of DM 727 million. Sales rose by 6 percent to DM 21.3 billion.

World economic environment

The economic conditions with which we had to contend became progressively more difficult as the year progressed. We found ourselves confronted by a series of new challenges, emanating in particular from the financial and economic crises which arose in several regions around the world. The downturn in activity in the chemicals sector of the industrial countries of the West also meant that we had to redouble our efforts in this area.

In Western Europe, economic growth slowed in the second half of the year. Shortfalls on the export side were only partially offset by increased domestic demand. The construction sector was still acting as a brake on the economy in most countries, especially Germany. Consumer spending picked up a little more than in previous years. Investment activity in the corporate sector showed a significant increase. The chemical industry managed only a marginal rise in 1998, with no growth in production over the year. Production in the automotive sector made very good progress, especially in Germany. The textile sector and a number of other industries serving the consumer market again had great difficulty increasing production at all in 1998.

The performance of the economies of Central and Eastern Europe was very mixed. Russia suffered an economic and financial crisis. Poland, Hungary and the Slovak Republic, on the other hand, recorded a substantial increase in output.

Economic activity in the United States continued to be brisk, with private consumption providing the main impetus. There was, however, a slowdown in exports, predominantly due to the Asian crisis. Growth in industrial output ran out of steam. Production in the chemical industry remained flat, albeit at a high level. Even in the automotive sector there was a complete absence of growth.

As the year progressed the countries of Latin America increasingly felt the damaging effects of the financial and economic crisis in Asia on the world economy. In Brazil, restrictive financial policies aimed at reducing the large current account deficit pushed the country into recession. Consumer spending shrank and automotive production slumped. In Mexico, by contrast, the economy continued to expand.

The countries of South East Asia affected by the crisis have had to cope with a considerable contraction in economic performance. Japan in particular has fallen into deep recession. Private sector consumption has gone down; industrial production has tumbled. China was hit by the crisis in the region and recorded faltering growth in its economy.

Further growth in all business sectors

The structure of our product portfolio and the regional balance of our businesses have once again proven a stabilizing factor. All our business sectors contributed to the increase in Group sales and each saw operating profits rise on a comparable basis.

The growth in sales in our existing businesses was 4 percent. Acquisitions and divestments produced a net gain of 3 percent. Exchange rate factors reduced the overall increase by 1 percentage point.

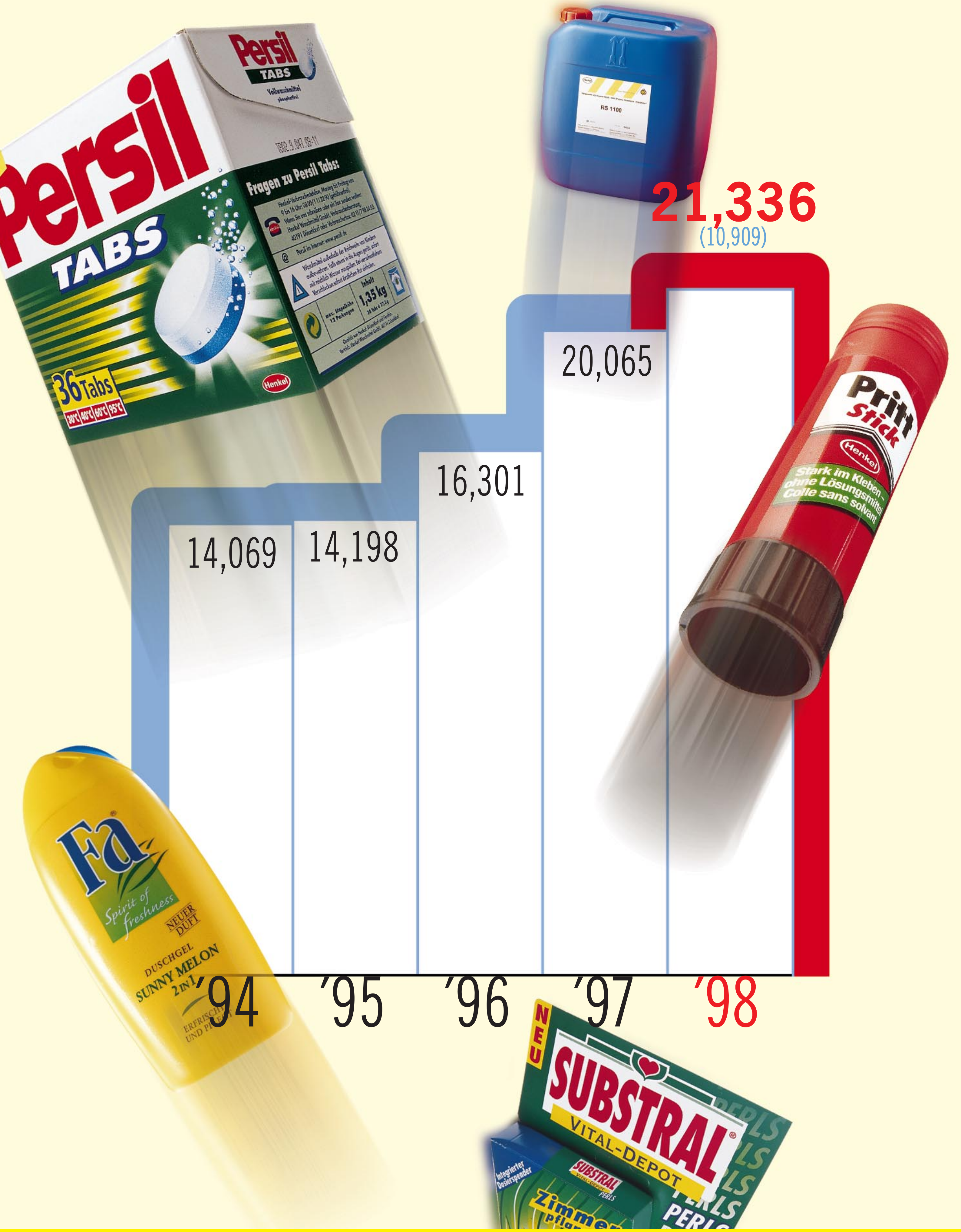
Compared with the prior year, the consolidated operating profit rose by 13 percent to DM 1,547 million.

The **Chemical Products** business sector posted growth in sales of 1 percent to DM 4,881 million. The sharp fall in currencies in South East Asia and weaker demand in North America adversely affected business. Oleochemicals and Care Chemicals (feedstock products for cosmetics, detergents and pharmaceuticals) fared somewhat better than Chemical Products overall. Organic Specialty Chemicals, on the other hand, had to contend with a downturn in sales. The operating profit of the Chemical Products business sector increased by 2 percent to DM 317 million. Excluding the exceptional gain from a divestment in the previous year, the increase was 13 percent. The return on sales amounted to 6.5 percent.

The **Surface Technologies** business sector saw sales increase by 4 percent to DM 1,703 million. Sales to the automotive industry were particularly high, producing a double-digit growth rate. Our position as worldwide market leader was further extended in all significant customer sectors on the industrial business side. Operating profit increased by 2 percent to DM 129 million. Excluding the exceptional gain from a divestment in the previous year, the increase amounted to 11 percent. The return on sales was 7.6 percent.

In the **Adhesives** business sector, sales rose by 9 percent to DM 4,639 million. This growth was the result both of acquisitions and of a further improvement in the performance of our existing business. Sales of our consumer and craftsmen adhesives achieved a double-digit growth rate, due both to an acquisition in the

Henkel's mission statement sums it up nicely: "To make people's lives easier, safer and better". Our aim is to temper our knowledge, our experience and our drive for innovation in the quest for added value for our customers, shareholders and employees, by a commitment toward social and ecological responsibility – all neatly expressed by the motto "Science + Soul" which forms the basis of our new international image campaign.



Consolidated Group Sales

in DM mill. (EUR mill.)

Henkel Group

Year-on-year % sales growth in 1998 by product division

Product division	Existing business	Acquisitions/ Divestments	Effect of exchange rate movements	Total
Chemical Products	+ 3	+ 1	– 3	+ 1 %
Surface Technologies	+ 4	–	–	+ 4 %
Adhesives	+ 3	+ 7	– 1	+ 9 %
Cosmetics/Toiletries	+ 10	+ 4	– 2	+ 12 %
Detergents/Household Cleansers	+ 3	+ 3	–	+ 6 %
Industrial and Institutional Hygiene	+ 3	+ 5	–	+ 8 %
Henkel Group	+ 4	+ 3	– 1	+ 6 %

USA and excellent business performance by our existing activities. In the case of our industrial and packaging adhesives, sales were slightly above the value for the preceding year. Our engineering adhesives (Loctite) performed rather better. Operating profit rose by 1 percent to DM 398 million. The return on sales amounted to 8.6 percent.

In the **Cosmetics / Toiletries** business sector, an excellent performance was reflected in an increase in sales of 12 percent to DM 3,335 million. Our brand-name products business abroad showed particularly high growth. The decisive factor in this case was a strong rise in sales in Central Europe and business successes in France and Britain with newly launched hair coloration products. Sales in the Asia Pacific region declined. Our hair salon products business continued to exhibit dynamic growth.

In the **Detergents / Household Cleansers** business sector, sales rose by 6 percent to DM 4,919 million. New products such as detergent tabs made a significant contribution to this positive result. Growth rates were achieved in virtually all European markets. The new businesses in the Mediterranean countries of Tunisia, Egypt and Lebanon showed gratifying progress. In China, too, there was an increase in sales. We had to contend with a decline in sales in Russia owing to the difficult economic conditions prevailing there.

The operating profit for our brand-name products business – Cosmetics / Toiletries and Detergents / Household Cleansers – rose by 15 percent and, at DM 538 million, reached a new record. The return on sales improved to 6.5 percent.

In the **Industrial and Institutional Hygiene** business sector, sales rose by 8 percent to DM 1,615 million. Slightly more than half this rise was attributable to acquisitions. Sales in respect of our existing businesses increased further in Germany, Poland, Spain and Portugal. At DM 129 million, operating profit was 8 percent down on the prior year. However, excluding the exceptional gain from a divestment included in the previous year, there was a 3 percent increase in earnings. The return on sales amounted to 8.0 percent.

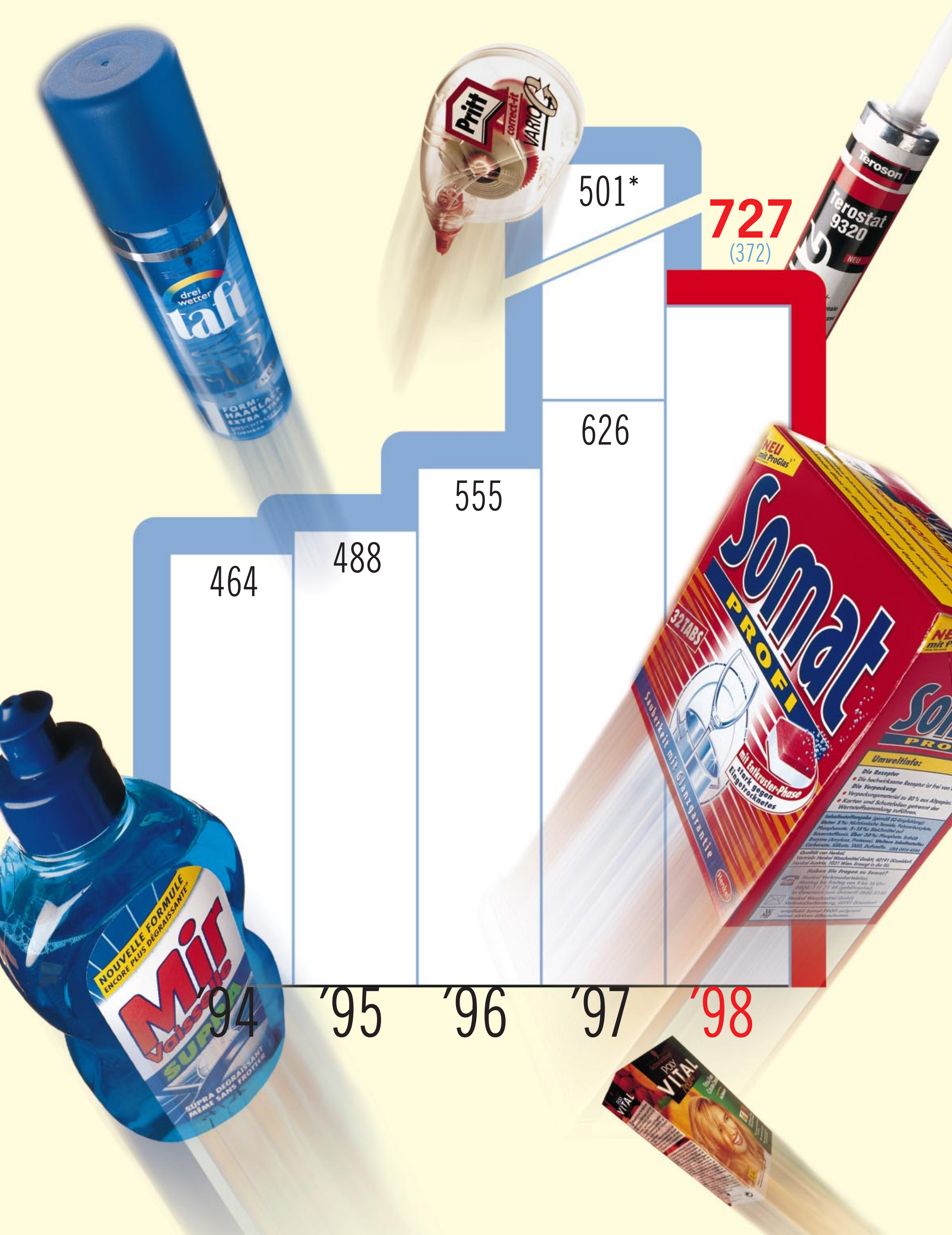
Market positions strengthened internationally

With an increase of 8 percent, the growth in sales of our affiliated companies abroad was more than double that of our German businesses which posted a 3 percent improvement. Exports from Germany rose by 4 percent.

In **Germany,** Surface Technologies recorded double-digit sales growth in percentage terms. The Industrial and Institutional Hygiene business also registered good sales successes. Revenue growth at Cosmetics and also in the case of Chemical Products – with its Oleochemicals, Care Chemicals and Organic Specialty Chemicals divisions – was in line with the overall trend. Detergents / Household Cleansers achieved a slight overall improvement in sales which was mainly attributable to the good performance of our cleaning agents. Adhesive sales were only slightly up on the preceding year.

Our affiliated companies in the **other European countries** achieved an increase in sales of 8 percent (excluding acquisitions: 5 percent). High rates of increase were recorded in the Industrial and Institutional Hygiene and also in the Cosmetics sectors. Good sales successes were achieved by Surface Technologies and Adhesives, and also Detergents / Household Cleansers. Chemical Products likewise saw an improvement in revenue.

In **North America** there was a rise in sales of 12 percent thanks to various acquisitions. The Adhesives sector was able to post a gratifying increase in respect of our existing business activities. Sales in the Surface Technologies sector were slightly up on last year. Chemical Products just



Net Earnings

in DM mill. (EUR mill.)

* Profit from disposal of GFC shareholding

failed to match the high revenues of the preceding year, although Care Chemicals did end fiscal 1998 with a sales figure higher than in 1997. The Cosmetics sector was able to gain a foothold in the USA through an acquisition.

In **Latin America,** sales rose by 6 percent. Cosmetics posted a double-digit growth rate. Good increases in revenue were also achieved by Surface Technologies, Chemical Products and Adhesives.

In **Africa,** thanks in particular to the growth achieved by our Egyptian subsidiary, sales increased by 10 percent.

In the **Asia/Australia** region, sales fell overall by 3 percent. The effects of the downturn in prices in Asia are reflected particularly starkly by the sales performance of our existing business which contracted by 8 percent. Newly incorporated companies in Saudi Arabia, India, South Korea and certain other countries were able to offset this decline to some extent. Bucking the trend in sales performance of the other product groups, our existing detergents businesses in the Middle East and in China generated an increase in sales revenue.

Earnings at new record

The Group's operating profit improved by 13 percent in 1998 to DM 1,547 million. As a proportion of sales the cost of sales increased slightly compared with the previous year. The ratio of marketing and distribution costs to sales remained the same in spite of a higher level of bad debts owing to the economic crises in Asia and Russia. The ratio of research and development costs to sales also remained the same, while the ratio of administrative expenses went down slightly. An increase in other operating income net of expenses contributed to the improvement in the operating profit. Other operating income included some fairly large special items: DM 52 million from the sale of company accommodation owned by Wohnungsbaugesellschaft Henkel oHG, and DM 24 million from the disposal of secondary cosmetic brands of only local significance. Amortization of goodwill increased owing to the inclusion of some newly acquired companies. Restructuring charges were reduced, but still concentrated on structural improvements to the production facilities for chemical products, adhesives, cosmetics and toiletries and detergents.

The proceeds received from the disposal of the GFC shareholding in 1997 meant that interest charges in 1998 were reduced, so improving the result from financial items, which was also helped by increased income from associated companies. The overall net loss from financial items improved from DM 385 million to DM 288 million.

Excluding the effect of the GFC sale in 1997, earnings before tax rose 27 percent to DM 1,259 million.

The tax charge (excluding the gain from the sale of the GFC shareholding) increased considerably more than the pre-tax profit figure, due mainly to a significant rise in the tax payable by Henkel KGaA. The effective tax rate was therefore 5 percentage points higher at 42 percent.

Net earnings were 16 percent up from DM 626 million (excluding the profit from the sale of the GFC shareholding) to DM 727 million, continuing the chronological pattern of results in previous years – excluding the GFC profit on sale in 1997 – and constituting yet another record as further evidence of Henkel's long-term alignment to steady earnings growth.

Proposed distribution of profit

The dividend distribution is based on the financial statements of Henkel KGaA, which are

Henkel Group
Balance Sheet Structure

	Dec. 31, 1997	**Dec. 31, 1998**	(Dec. 31, 1998)
	DM mill.	DM mill.	(EUR mill.)
Total assets	17,417	17,857	(9,130)
(as % of total equity and liabilities)			
Fixed assets	56.6	56.6	(56.6)
Deferred tax assets	2.6	2.3	(2.3)
Inventories	15.2	15.6	(15.6)
Receivables and miscellaneous assets	23.7	24.1	(24.1)
Liquid funds/marketable securities	1.9	1.4	(1.4)
Equity incl. minority interests	31.9	31.0	(31.0)
Long-term borrowings	26.9	27.8	(27.8)
Short-term borrowings	41.2	41.2	(41.2)

reproduced in summarized form on page 17 of this Annual Report.

Our distribution policy is linked to earnings. 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).

The unappropriated profit of Henkel KGaA amounts to DM 232 million. Our recommendation to the Annual General Meeting will be for a dividend of DM 1.55 per share to be paid on the ordinary shares and a dividend of DM 1.65 per share on the preferred shares. For shareholders liable to tax at the full rate who are entitled to the tax credit, the gross distribution – i.e. the net dividend plus tax credit – will total DM 2.21 on each ordinary share and DM 2.35 on each preferred share, making a payout equal to 35 percent of the earnings of the Henkel Group for the year after minority interests.

Financial position

We have changed the basis on which our cash flow figure is calculated. The purpose is to make this key figure even more informative and above all more easily reconcilable with the figures reported by segment. The calculation now starts with the operating profit. Financial items involving movements of cash are classified as cash flows from financing activities.

Another change is in the treatment of acquisitions, which now include the borrowings taken over less the cash and cash equivalents taken over, thereby reflecting the full financial resources committed to acquisitions. The borrowings taken over are treated as cash inflows from financing activities.

1998 saw a further increase in cash flow. Compared to the 1997 figure it rose by 2 percent on a comparable basis to DM 2,083 million. The ratio of cash flow to sales, at 9.8 percent, remained roughly the same as in the previous year.

The net cash inflow from normal operating activities, in the meantime, has gone down. This was due to the reduction in liabilities which in the previous year had risen more strongly than usual. Inventories and receivables required less additional capital than in the previous year.

The net cash outflow for capital expenditure on tangible fixed assets and acquisitions on the other hand, after allowing for the proceeds from disposals of fixed assets, was much less than in the previous year (when it had been materially affected by the acquisition of Loctite and the disposal of the GFC shareholding).

Dividends and interest paid accounted for cash outflows totaling DM 802 million. Interest and dividends received brought in DM 183 million. Further funding was obtained by increasing borrowings, primarily by topping up the commercial paper program.

The overall decrease in cash and cash equivalents was DM 73 million. After allowing for the effect of exchange rate changes (a decrease of DM 16 million), liquid funds and marketable securities in the balance sheet were down by DM 89 million at DM 248 million.

The cash flow statement is reproduced in the section of this report containing the annual financial statements of the Henkel Group.

Balance sheet structure

Total assets rose by 3 percent in 1998 to DM 17,857 million. Fixed assets and current assets both rose by a similar amount in percentage terms.

The shareholders' equity (including minority interests) fell by a minimal amount of DM 31 million in the year under review to DM 5,532 million. The equity ratio showed a marginal decline from 31.9 percent to 31.0 percent. Pension provisions rose by DM 208 million to DM 3,468 million, mainly due to changed mortality statistics used as the basis for calculating the pension provisions of German companies, taking the increased life expectancy into account. The amounts added to the provisions for this purpose have been charged directly against revenue reserves (net of deferred tax) without affecting earnings. Provisions as a whole accounted for

Henkel KGaA
Dividend in DM

	1994	1995	1996	1997	**1998**	(1998) (EUR)
per ordinary share	0.90	1.05	1.20	1.35	1.55*	(0.79)
with tax credit	1.29	1.50	1.57	1.92	2.21	(1.13)
per preferred share	1.10	1.15	1.30	1.45	1.65*	(0.84)
with tax credit	1.57	1.64	1.70	2.07	2.35	(1.20)

proposed*

Annual Financial Statements of Henkel KGaA (summarized) *

Statement of Income	1997	1998	(1998)
	DM mill.	DM mill.	(EUR mill.)
Sales	5,729	6,005	(3,070)
Cost of sales	3,786	3,893	(1,990)
Gross profit	1,943	2,112	(1,080)
Selling, research and administrative expenses	1,916	2,014	(1,030)
Other income (net of other expenses)	157	336	(172)
Operating profit	184	434	(222)
Financial items	– 79	316	(161)
Special pension costs**	–	– 122	(– 62)
Gain from sale of GFC shareholding ***	1,070	–	(–)
Change in special accounts with reserve element	– 519	6	(3)
Earnings before tax	656	634	(324)
Taxes on income	– 395	– 270	(– 138)
Net earnings	261	364	(186)
Allocation to revenue reserves	– 58	– 132	(– 67)
Unappropriated profit	203	232	(119)

Balance Sheet	Dec. 31, 1997	Dec. 31, 1998	(Dec. 31, 1998)
	DM mill.	DM mill.	(EUR mill.)
Tangible and intangible assets	792	867	(443)
Financial assets	4,591	5,663	(2,896)
Fixed assets	5,383	6,530	(3,339)
Inventories	583	584	(299)
Receivables and miscellaneous assets	3,562	3,385	(1,730)
Liquid funds	13	3	(2)
Current assets	4,158	3,972	(2,031)
Total assets	9,541	10,502	(5,370)
Shareholders' equity	3,454	3,615	(1,848)
Special items	719	693	(354)
Provisions	2,587	2,695	(1,378)
Liabilities	2,781	3,499	(1,790)
Total equity and liabilities	9,541	10,502	(5,370)

* 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.

** Expense of the change in mortality statistics.

*** Proceeds of sale (DM 1,331 million) less acquisition costs (DM 261 million).

around 30 percent of the balance sheet total, the same proportion as in the previous year.

Borrowings went up by DM 465 million to DM 4,230 million. The gearing ratio in 1998 was 76.5 (1997: 67.7).

The return on equity was 13.1 percent, similar to the previous year's level on a comparable basis.

Major acquisitions and joint ventures

Having placed our industrial adhesives business on a wider footing in 1997 with the acquisition of Loctite, our attention in the adhesives sector has turned to expanding our regional presence in relation to our consumer and craftsmen product portfolio.

At the beginning of 1998, therefore, we acquired 65 percent of the share capital of Manco Inc., Avon, USA, purchasing the remaining 35 percent during the second half of the year. Manco manufactures and markets a wide range of end-consumer adhesives and adhesive tapes, and enjoys an excellent market position, particularly with respect to adhesive tapes. The acquisition has caused us to realign our adhesives business for end consumers in the USA and Canada and to incorporate the Canadian businesses of Le Page and Canadian Adhesives and the US consumer adhesives business of Loctite under the unified management of Manco. Our total investment outlay on the Manco takeover amounted to US$ 111 million. The sales revenue of this business in 1998 totaled US$ 167 million. We expect that the sales strength of Manco will soon convert to a gain in market share in the USA and a rapidly rising return.

We have taken over the Chemical Products Division of the American Fel-Pro group from its shareholders. This has meant that we have been able to substantially further consolidate our industrial adhesives business in the USA. The product portfolio acquired from Fel-Pro includes specialty adhesives, epoxy resins and specialty lubricants which are employed in the paper industry, mining and power generation. This business provides an excellent complementary addition to our previous sales portfolio for the market segments mentioned. The purchase price was US$ 62 million. In

1998, this entity achieved sales of US$ 38 million.

In the Surface Technologies sector, France constitutes the second largest European market after Germany. A significant step was therefore taken in the further expansion of our surface technologies business with the acquisition of our long-term licensee CFPI (Compagnie Française des Produits Industriels) S.A., Gennevilliers, France. CFPI holds a leading position in France. This capability, combined with the activities of the companies S.A.I.M., Teroson France, Henkel Chimie de Métaux and Novamax France, all of which are to be incorporated under the auspices of Henkel Surface Technologies France, will provide us with a broad foundation upon which to build our future presence in the French surface technologies market. The takeover of the Maxwell Automotive Division from Maxwell Chemicals Pty. Ltd., Botany, Australia, and the acquisition of Tirreno Ltda., São Paulo, Brazil, ensured that we were also able to move forward with our policy of expanding our business in the surface technologies sector. These acquisitions in Australia and Brazil mean that we have assumed the mantle of market leader in both countries. The CFPI, Maxwell and Tirreno takeovers cost us a total equivalent of DM 63 million.

We have come a significant step closer to achieving our goal of full globalization of our cosmetics business with the acquisition of DEP Corp., Los Angeles, USA for US$ 93 million. This company provides us with a platform for entering the American cosmetics market. Previously, we have only been represented there by a distributor. DEP Corp. is one of the leading suppliers of styling products in the American hair cosmetics market.

In order to further strengthen our position in the Greek cosmetics market, around the middle of 1998 we acquired a 50.1 percent holding in Rilken S.A., Athens, Greece, for the equivalent of approx. DM 22 million. With Rilken, Henkel moves to second position in the Greek hair cosmetics market and has at the same time achieved a sustainable basis for further development of its hair salon business. In 1998 Rilken posted sales amounting to the equivalent of DM 50 million.

In the detergents business, part of our strategy involves gaining a foothold in selected growth markets – particularly in the Near and Middle East. Consequently, together with the Arabian Company for Detergents, Riyadh, Saudi Arabia, we have founded a joint venture under the name Henkel Detergent Saudi Arabia Ltd., in which we have a 50 percent shareholding and a voting majority. We regard this involvement as a good basis for expanding our business activities in the Arab region. The value of our contribution amounts to approx. DM 34 million.

One of the core activities of the Henkel-Ecolab joint venture is that of Professional Hygiene. At the beginning of 1998, Henkel-Ecolab acquired for £ 13 million ISS Darenas Ltd., Birmingham, England, a leading supplier of complete system solutions in the fields of building cleaning services and catering. Linked to this acquisition is a long-term supply contract between Henkel-Ecolab and various European ISS companies.

Major divestments

The objectives of our divestment activities derive from a desire to concentrate on our core businesses, streamline capacities, particularly on the production side, and reduce the complexity of our market involvement.

In the year under review we sold off Chemplast SpA, Milan, Italy. This is a purely trading company which deals in the field of chemical products. We took this step because trading is not one of Henkel's core activities.

Also alien to our main areas of business are the activities of Wohnungsbaugesellschaft Henkel oHG, our housing construction company. Consequently, in 1998 we sold one third of its housing stock to two property companies, from which transaction we recorded a gain of DM 52 million.

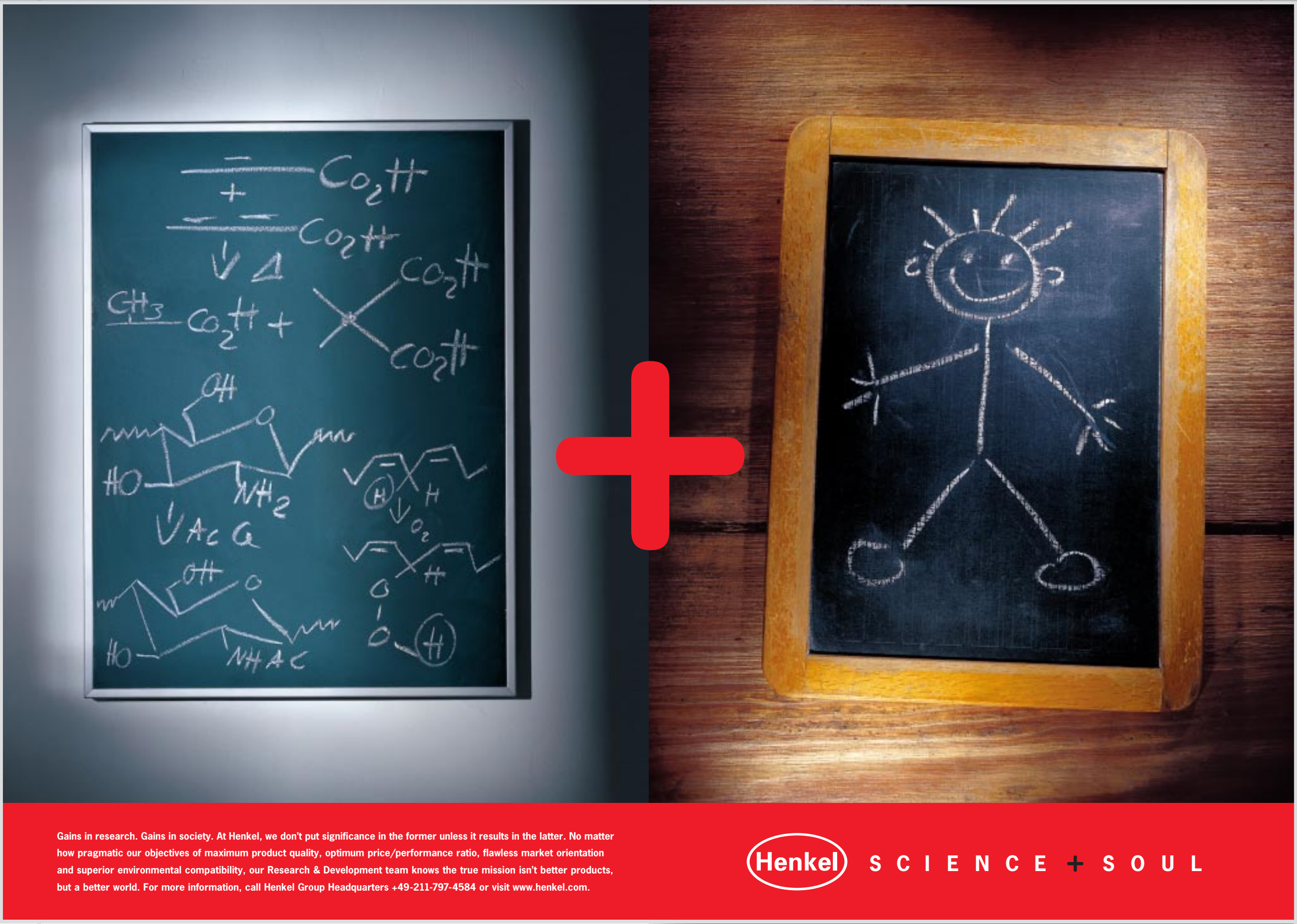
The automotive aftermarket business in North America which came with the acquisition of Loctite also counts among our more marginal activities. We are currently negotiating the sale of this operation to Automotive Performance Group, Tempe, Arizona, USA.

As part of the process of restructuring our international production network in the cosmetics sector, we sold our factories in Castello d'Argile in Italy, Dordrecht in the Netherlands, Kematen in Austria and Frenchs Forest in Australia. In the cosmetics sector we are concentrating on expanding our strong international brands. A number of secondary brands of local significance have therefore also been sold.

Capital expenditure

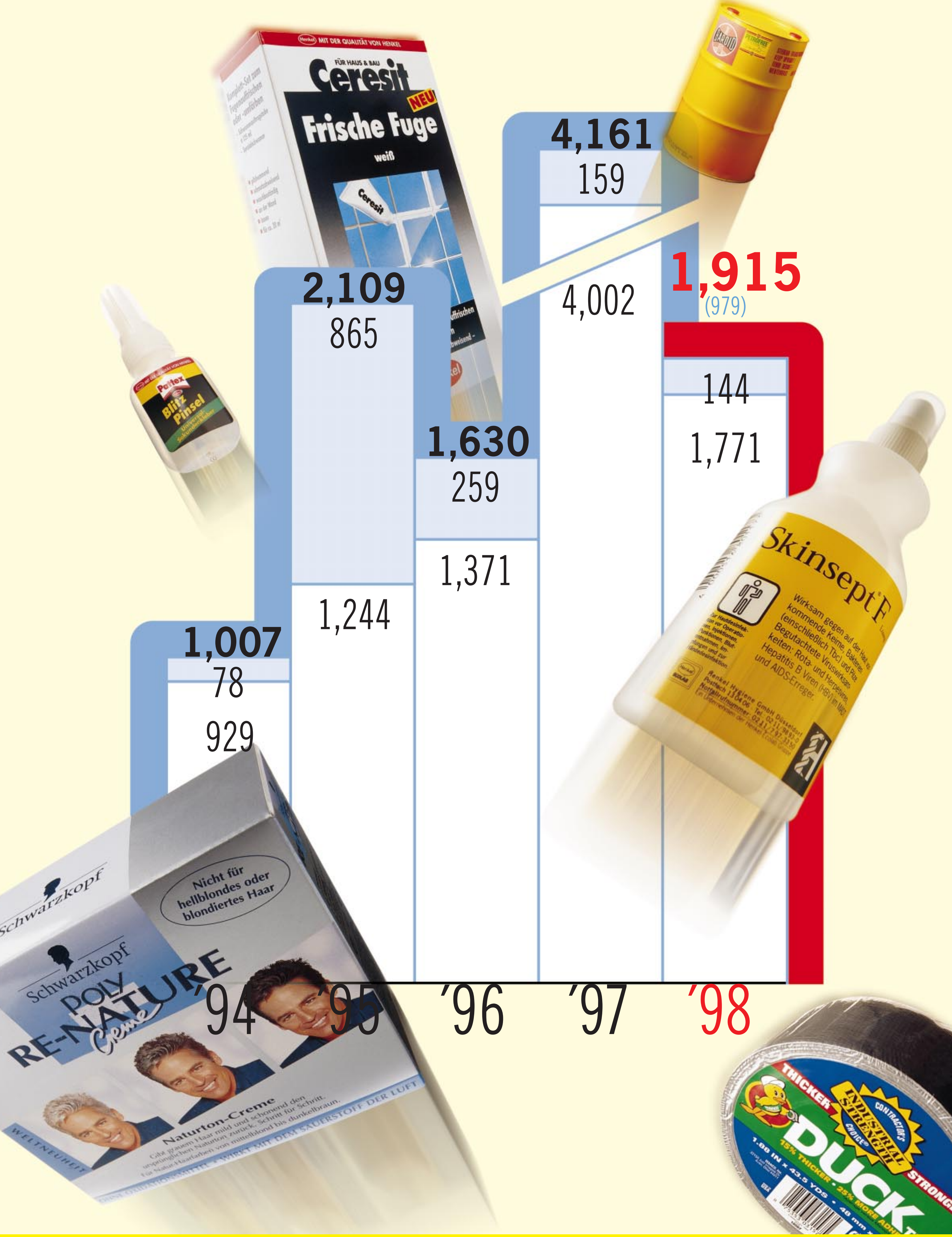
Investment in tangible, intangible and financial fixed assets in 1998 amounted to DM 1,915 million. Of this figure, intangible assets accounted for DM 662 million, tangible assets DM 1,109 million, and financial assets DM 144 million. We invested DM 1,139 million in our existing businesses. Of this figure, DM 384 million was accounted for by brand-name products, and DM 287 million was allocated to the Adhesives business sector. In the Chemical Products business sector, investment decreased from DM 301 million in 1997 to DM 269 million in 1998. This meant that capital expenditure was less than the depreciation charge for the year. In the Surface Technologies and Industrial and Institutional Hygiene business sectors, capital expenditure overall rose to DM 186 million.

The following major projects were completed in 1998:
- Production facility for FAS granulates and other surfactant compounds in Düsseldorf-Holthausen, Germany.
- Factory for the manufacture of cigarette adhesives under clean-room conditions in Niedererlinsbach, Switzerland.
- Production facility for environmentally compatible paint base materials in Meaux, France.



Progress in research should always be geared to advancement in social terms as well. Better products offering better value for money and/or improved environmental compatibility constitute both achievable and pragmatically viable objectives. The world benefits a little each time we reach such goals.

- Facility in Tromso, Norway, for the production of chitosan, a natural cosmetics base material manufactured from crab shells.
- Replacement and relocation of oleochemical production facilities in Bangpakong, Thailand.
- Sulfonation plant for oleochemical base materials in Shanghai, China.



Capital Expenditure on Tangible and Financial Assets Henkel Group

in DM mill. (EUR mill.)

- Financial assets (excl. increase in equity valuation)
- Tangible and intangible assets

Expenditure on tangible assets in 1999 is likely to remain at a level similar to that of 1998. Major capital projects in the pipeline include increasing our detergent tabs and liquid detergents production capacity, and also expanding our manufacturing facilities for building chemicals in Eastern Europe. Regional expenditure outside Europe still remains focused on North America, where our investment in the area of vitamin E production is a priority.

The following major projects are scheduled for completion in 1999:

- Expansion of production for Somat tabs in Foetz, Luxembourg.
- Construction of a factory for the manufacture of building chemical products in Walbrzych, Poland.
- Rationalization of production facilities for the manufacture of beta carotene in Hutt Lagoon, Australia.

Expenditure on research and development

Expenditure by the Henkel Group on research and development was DM 489 million, 5 percent up on last year. This amounted to 2.3 percent of total sales. DM 210 million was spent on technical services, 10 percent more than in the previous year. An average of 3,700 employees worldwide were involved in our research, development and applications engineering activities.

We have restructured our interdivisional research and technology group. The objective here was to place our knowledge management on a new footing. To this end, we have assembled eight “competence platforms”. We are also networking these research groups more intensively – both with each other and with groups involved in product development and applications engineering. This has enabled us significantly to improve the efficacy and market alignment of our research and development effort.

Our research and development activities are described in detail in the “Research and Technology” section.

Environment, health and safety

The ongoing improvement of safety, the environment and preventive health protection, including industrial and labor safety, count among our central corporate objectives.

In 1998 we spent DM 392 million on environmental and consumer protection (1997: DM 389 million). Expenditure by our German companies amounted to DM 232 million (1997: DM 234 million). Of the total figure, 70 percent was taken up by current costs in production and engineering, 21 percent by research and development and 9 percent by capital expenditure.

Since 1992 we have been publishing a detailed report on an annual basis, which covers all the many environmental protection, health and safety activities of the Henkel Group. This so-called “SHE-Report”, published at the same time as the Annual Report, documents our objectives and also the progress and innovations which have been made in the fields of health, safety and environmental protection in relation to our products and production activities worldwide.

This year we have further developed our communications concept in relation to environmental matters.

For the first time we have published our 15 standards covering the fields of safety, health and environment, which are applicable throughout the Group. These form the backbone of our systematic Group-wide environmental management program under the designation SHE – Safety, Health, Environment. With our SHE standards and the associated detailed guidelines we implement the worldwide Responsible Care® program of the chemical industry. They also form the basis for certification according to internationally agreed environmental management standards.

We check the degree to which our defined requirements have been satisfied by means of systematic audits. By the end of 1998, such audits had been performed at 107 production sites. The possibility of acquiring a certificate of ecological compliance on the basis of audits performed by external inspectors is also being utilized on an ongoing basis. 19 production sites have so far been certified in this manner.

Procurement network further expanded

Our expenditure on materials in 1998 amounted to DM 9.1 billion; compared to the previous year, this represents an increase of 7 percent. We have further expanded our worldwide procurement network. In over 100 international teams, purchasing strategies for all important input materials are coordinated on a multifunctional basis. We are also increasingly utilizing the facilities offered by the Internet for the procurement of auxiliaries and consumables.

Countdown to the year 2000

The “Millennium Bug” is also an important matter for Henkel. This involves the problem whereby, in data processing systems, the year numbers are frequently only stored and processed on the basis of their last two digits. During the changeover to the year 2000, this could lead to errors and malfunctions in information systems employed in both the commercial and engineering sectors, as well as in a wide range of different control systems.

Henkel has responded in good time with a systematic approach to the tasks and precautions which derive from this problem. A specific organization has been established to tackle all matters emanating from the “Y2K” scenario, and a comprehensive reporting system is also in place to ensure maximum efficacy.

The management and employees of Henkel KGaA and its affiliated companies have been extensively informed on the various aspects of the project, and a Steering Committee headed by the Executive Vice President Information Systems, controls and monitors the worldwide activities of the Henkel Group in relation to this subject.

We are also cooperating very closely with our customers, suppliers and service providers in order to ensure that our business processes continue to function smoothly as we approach the millennium and beyond. Having now set a raft of appropriate measures in motion, we consider ourselves well equipped for the turn of the millennium.

Changeover to the Euro

Henkel regards the introduction of the Euro as a highly favorable development. Nearly 60 percent of our total sales are transacted in the Euro zone. 54 of our affiliated companies are directly affected by the changeover. We expect to spend something like DM 10 million adapting our computer systems. Thanks to having started the upgrading process some years ago by introducing modern standard software, we have been able to keep the conversion costs relatively low.

Since the end of 1996 the affiliated companies concerned have been running centrally coordinated investigations into the effects of the Euro on our business activities. In 1998 the emphasis was on specific project work to implement the targets set.

It was extremely important, particularly for the consumer products businesses in Europe, for the brand portfolio to be revamped, products further standardized, a uniform pan-European system of terms and conditions developed for the trade, and for work to be done on harmonizing prices across Europe.

Cash management systems in the Henkel Group have been handled in Euro since the beginning of 1999. We think there is tremendous potential for optimizing financial and hedging costs and for greatly simplifying the planning and handling of European transactions in a single currency.

Thanks to all our preparatory work we have been in a position to do business with individual customers and suppliers in Euro, if desired, since the beginning of 1999.

The Henkel companies affected have been accounting for all intra-Group supplies in Euro since the beginning of 1999. They will switch their accounting records to the Euro as soon as a majority of their business transactions are conducted in Euro. As this varies depending on each type of customer and is therefore specific to each particular business, every company in the Group can make its own decision as to when is the most appropriate time to make the changeover. Henkel KGaA will introduce the Euro as its house currency in fiscal 2001.

We will be reporting to our shareholders in Euro from 1999 onwards.

In order to familiarize readers of our Annual Report with reporting in Euro, we have shown the figures in the balance sheet, statement of income and cash flow statement for the year under review in Euro as well as in DM. We have also quantified some items in the Notes to the financial statements and in the Management Report in DM and in Euro; and important key ratios have been similarly translated. All of these extra voluntary figures have been translated at the Euro exchange rate fixed on January 1, 1999 (1 Euro = DM 1.95583).

Risk management systems

The German Law on Corporate Governance and Transparency (KonTraG) has been introduced to improve the legal basis for risk management and control systems in joint stock companies. Risk management systems have long been part of Henkel's business management techniques. Henkel KGaA has included these risk management systems in the audit of its accounting records for the year under review, already applying the new regulations with effect from fiscal 1998.

Henkel's risk management systems 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 latter consists of control units covering performance-related management; Corporate Financial Controlling for managing the finances of affiliated companies; and the strategic Corporate Controlling department. Treasury Controlling performs specific functions in connection with interest and exchange rate management. The internal audit department performs its control functions independently of the business sectors and affiliated companies, reporting directly to the President and CEO of Henkel KGaA.

Henkel's early warning systems are based on the guiding principles and corporate strategy of the Group. These define the core activities of the Group (brand-name products, systems businesses and base materials) and indicate how the management and development of the Group's activities are to be carried out by strategic business units (SBUs) with responsibility worldwide. Fundamental business decisions are based on the Group's corporate strategy, which serves as a benchmark providing a qualitative early warning function when deviations arise.

The early warning system is also embedded in the Group's strategic planning procedures and the program to increase shareholder value. Each of these formulates quantitative targets. Variances from the long-term quantitative targets are identified by means of strategic analysis and in the context of the annual budgeting procedure and financial projections during the year. In this way appropriate countermeasures can be taken in good time.

The reporting system is based on monthly returns of sales revenue, costs and earnings as well as net operating assets. These financial data from the various subsidiary units in the Group have to be available shortly after the end of each month. Our management information system consolidates the data supplied by more than 30 SBUs. This means that Henkel has a reporting system which enables an up-to-date comparison to be made between actual performance and the proportionate budget figures forecast for the current year.

The main functions of the control system in the context of risk management are to identify and analyze deviations and variances on the basis of the early warning and reporting systems. It is also responsible for evaluating potential risks and opportunities as they arise and for formulating recommendations for exploiting the opportunities and controlling the risks.

Treasury Controlling is responsible for monitoring the use of derivative financial instruments for hedging the currency exposure and interest rate risks associated with the Group's operating and financing activities. These instruments are explained in more detail in the Notes to the financial statements in this Annual Report.

The internal audit department answers solely to the President and CEO and exercises an independent supervisory function on his behalf. It reviews and evaluates the cost-effectiveness, security and correctness of business procedures and the effectiveness of internal control systems within the Group. Its work is aimed in particular at identifying weaknesses, sources of error and – where there are reasonable grounds for suspicion – irregularities and other causes of financial loss to Henkel, and at providing the necessary impetus for them to be eliminated and avoided in future. Internal audit operates throughout the entire Henkel Group and covers all the Group's commercial activities.

Outlook

World economic forecasts for 1999 include the prediction that the crises in South East Asia, Japan and Russia will continue to have a negative impact. The forecast of a similar downturn in Latin America has already been confirmed in an unexpectedly forthright manner by the dramatic deterioration of the economic situation in Brazil at the beginning of this year. For Western Europe we are expecting a further modest slowdown in growth owing to a subdued performance from exports. We also expect activity in the USA to lose momentum in 1999. Our projections for 1999 assume a stable exchange rate for the Euro following its introduction at the beginning of the year.

We shall be endeavoring to increase Group sales beyond the DM 22 billion mark in 1999. Our sales and earnings targets are most at risk from the performance of the economies in the crisis regions and the exchange rate movements of the currencies concerned. Although a fall in value of the Euro against the dollar would make oils and fats traded in dollars more expensive, the overall effect for Henkel would be favorable because of the impact, among other things, of exchange rate movements on the foreign currency translation of sales and earnings.

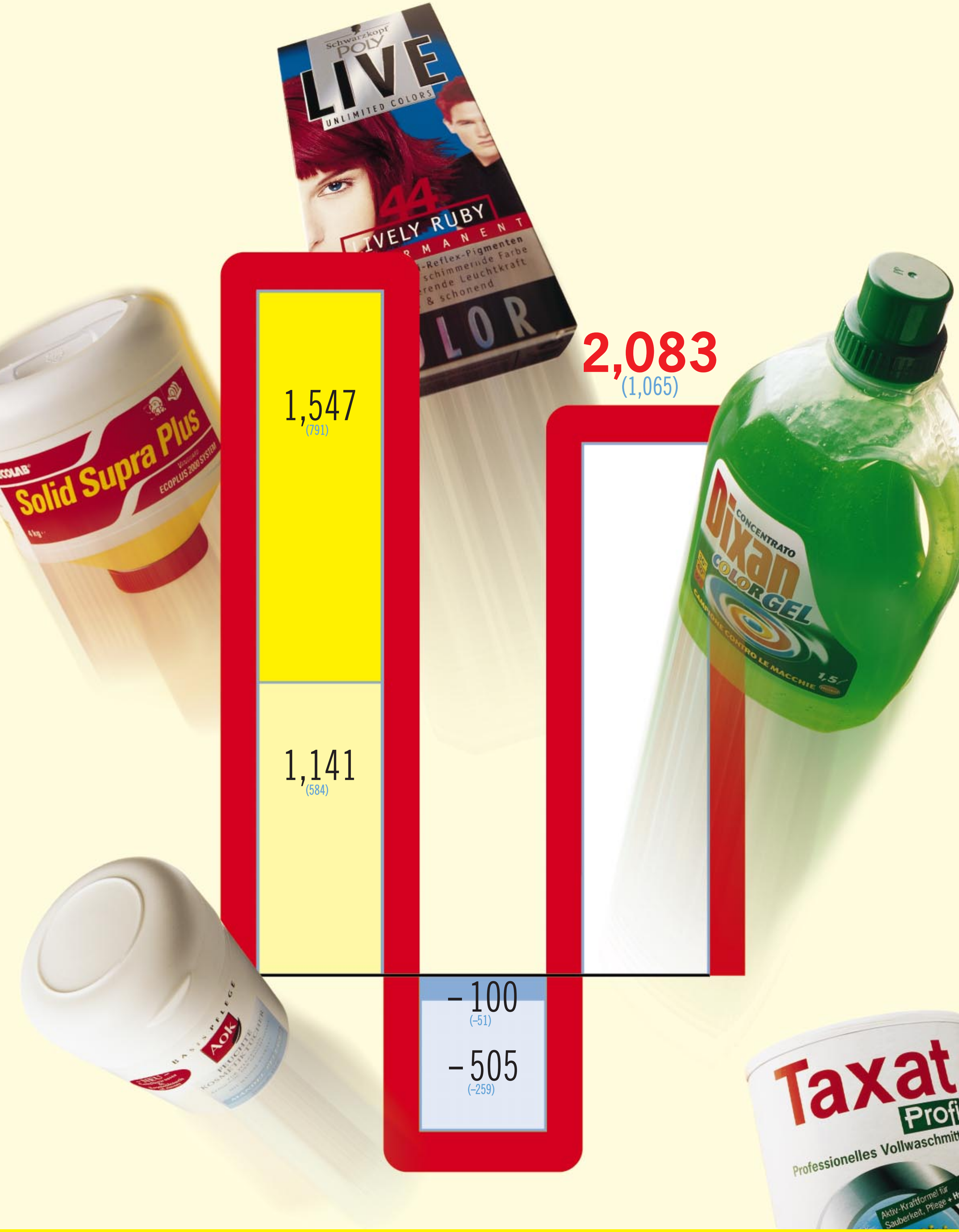
The more difficult economic climate means that we must continue our drive to increase efficiency and reduce costs, with particular emphasis on improving returns on investment.

We have chosen the motto "Year of ROI" for 1999 (ROI = return on investment). The objective will be to achieve a systematic and sustained increase in the return on capital employed in the business, the return on equity, and the return on shareholders' capital invested in the Company at stock market values. While pressing ahead with organic growth we want to make our businesses more profitable and exploit every opportunity to reduce the amount of capital employed.

In the context of our management program to deliver shareholder value we continue to assess all our businesses, acquisitions and capital expenditure according to the extent to which the ensuing returns on capital match the yields demanded by the capital market.

On February 5, 1999, we announced that we intend to carve out the Chemical Products business sector as a legally independent entity. This decision requires the approval of shareholders at the Annual General Meeting. The new management company, a wholly-owned subsidiary of Henkel KGaA, is to carry the name "Cognis" and will employ about 10,000 people worldwide. The carve-out is a logical continuation of our efforts to strengthen and increase the value of our chemical products business by restructuring, active portfolio management, and concentrating on particularly profitable product areas. Carving out the chemical products business opens up new strategic options for the future.

We have set ourselves ambitious targets again for 1999. With our product portfolio and the broadly based presence of our businesses, we consider that we have a viable and resilient platform for balancing market risks and cushioning the effects of regional economic downturns. We are therefore confident that 1999 will see yet another improvement in earnings.



Cash Flow

in DM mill. (EUR mill.)

- Operating profit
- Depreciation of fixed assets
- Net gains from disposals of fixed assets
- Income taxes paid
- Cash flow

Henkel ordinary and preferred shares again outperformed the DAX, the German equities index, in 1998.

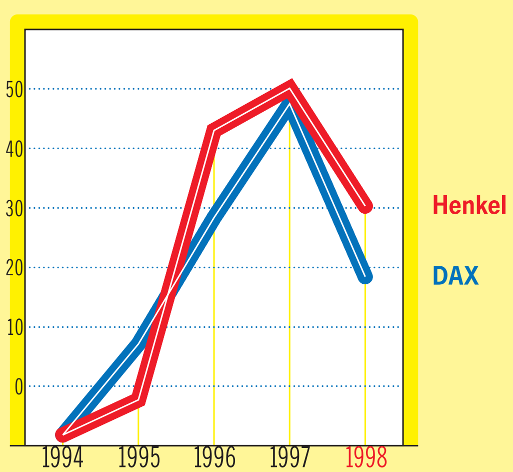
Henkel shareholders saw the value of their preferred shares (dividend plus share price appreciation) rise by 30.1 percent in 1998, while the DAX rose by 17.7 percent. Investors who bought at the original issue in 1985 have seen their return on Henkel preferred shares average 15.7 percent per year. The average annual return on the DAX index over the same period was 11.6 percent.

The value of Henkel ordinary shares rose by 33.9 percent in 1998 compared with a 17.7 percent increase of the DAX. Investors who received ordinary shares under the terms of the conversion offer in 1996 have seen the value of their shares increase since July 2, 1996 by 33.6 percent per year. The average annual return on the DAX over that period was 30.6 percent.

Share Price Performance

compared with previous year (%)

Henkel preferred shares / DAX



The Henkel KGaA Annual General Meeting, held on May 4, 1998, approved the change in the classification of capital stock from par value shares to no par value shares in preparation for the introduction of the Euro in 1999.

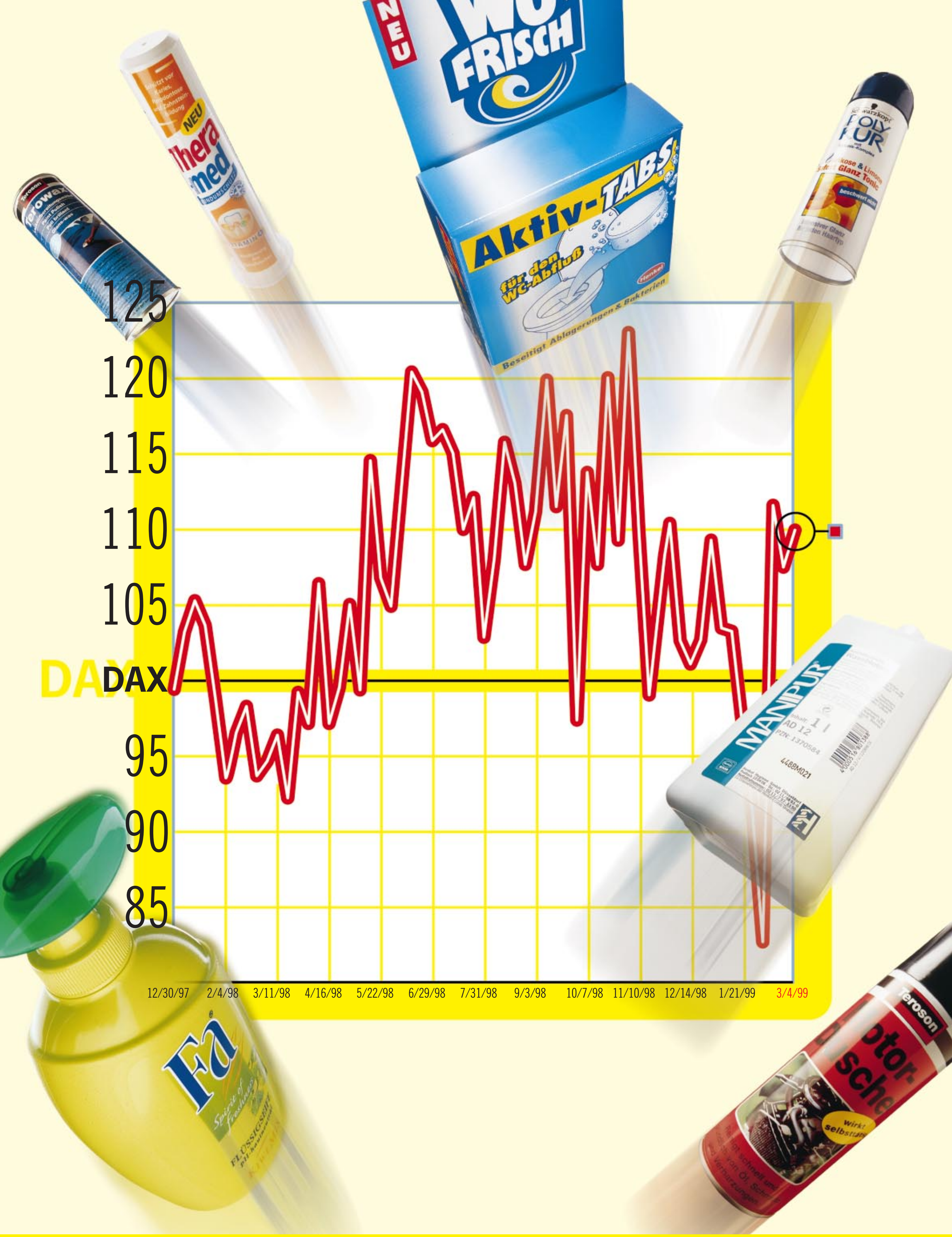
In order to simplify administrative activities – in line with our 1998 motto "Year of Simplification" – and substantially reduce expenses of low-volume stock exchange listings abroad, Henkel shares stopped trading on the stock exchanges in Switzerland in September 1998, and trading in Henkel preferred shares was discontinued on the Vienna stock exchange at year-end 1998.

Investor Relations

In 1998, Henkel management again visited investors in all of the major financial centers throughout Europe and North America. Executives briefed investors at two major conferences in London and Dresden and at additional events throughout the USA and Canada, in Frankfurt, Paris, Zurich and Lugano. In addition, management held quarterly conference calls to brief analysts and investors on financial results and other corporate developments.

In the first quarter of 1998, Henkel added summaries of the balance sheet and the statement of income to the information distributed to shareholders. The interim report for the nine-months period from January through September also included segmental financial information (sales, operating profit, return on sales and return on investment) on the Henkel product divisions for the first time. These additions substantially improved the informational content of our quarterly results announcements.

The success of our investor relations efforts can be measured, in part, by the significant number of analysts regularly covering Henkel, both from the chemicals and consumer goods sectors.



Relative Share Price Performance Henkel/DAX

Henkel's preferred shares were quoted at DM 140.82 (EUR 72) on March 4, 1999, before the Annual Report went to print.

Capital Market / Investor Relations

Key data on Henkel shares [1]

	1994 DM	1995 DM	1996 DM	1997 DM	1998 DM	(1998) (EUR)
DVFA/SG earnings per share	3.35	3.35	4.00[6]	5.35	6.25[8]	(3.20)
Published net earnings per share	3.18	3.34	3.80[6]	4.29	4.98	(2.54)
Cash flow per share	8.82	8.55	9.76[6]	13.94[7]	14.27	(7.30)
Shareholders' equity per share	26.29	27.90	32.46[6]	38.10	37.89	(19.37)
Share price at year end [2]						
Ordinary shares	–	–	73.70	100.0	132.50	(67.75)
Preferred shares	56.50	53.80	75.80	112.50	144.90	(74.09)
High for the year [2]						
Ordinary shares	–	–	75.80	101.80	159.00	(81.30)
Preferred shares	67.80	58.35	77.70	115.00	183.45	(93.80)
Low for the year [2]						
Ordinary shares	–	–	60.50	73.20	98.50	(50.36)
Preferred shares	53.15	50.80	54.40	76.30	106.30	(54.35)
Price/earnings ratio at year end						
Ordinary shares	–	–	18.43[6]	18.69	21.20	
Preferred shares	16.87	16.06	18.95[6]	21.03	23.18	
Price/cash flow ratio at year end						
Ordinary shares	–	–	7.55[6]	7.17[7]	9.29	
Preferred shares	6.41	6.29	7.77[6]	8.07[7]	10.15	
Number of shares (in millions) [3]	146.0	146.0	146.0	146.0	146.0	
Ordinary shares	80.0	80.0	86.6	86.6	86.6	
Preferred shares	66.0	66.0	59.4	59.4	59.4	
Market capitalization [4]						
at year end (DM/EUR billions)	8.2	7.9	10.9	15.3	20.1	(10.3)
Turnover in Henkel shares (in millions) [5]	171.7	172.0	284.8	290.1	315.0	

1) par value of shares reduced from DM 50 to DM 5 each in 1996; figures for previous years adjusted accordingly; par value shares converted into no par value shares in 1998
2) prices quoted on Düsseldorf stock exchange
3) ordinary and preferred shares
4) same market price assumed for preferred and ordinary shares 1994–1995; different prices from 1996 onwards
5) total turnover in preferred shares 1994–1995; preferred and ordinary shares from 1996 onwards
6) restated in line with IAS
7) cash flow calculated on new basis from 1997 onwards
8) effect of dilution 1 pfennig; earnings per share (diluted and undiluted) DM 6.25 to nearest pfennig

Henkel works closely with the financial community to ensure that corporate communications are comprehensive and transparent, leaving little room for surprises. Consensus earnings estimates averaged DM 5.72 per share for 1998 and DM 6.58 per share for 1999. Actual earnings per share for 1998 of DM 6.25 beat estimates by less than 10 percent.

Henkel intends to carefully maintain its policy of full and open disclosure which

Earnings per share

	1994 DM mill.	1995 DM mill.	1996* DM mill.	1997 DM mill.	**1998** DM mill.	(1998) (EUR mill.)
Published net earnings	464	488	555	1,127	727	(372)
Adjustments (after tax)	+ 96	+ 59	+ 99	– 281	+ 258	(132)
Minority interest in profits (less losses)	– 70	– 55	– 70	– 65	– 70	(– 36)
Earnings	490	492	584	781	**915**	**(468)**
Number of shares in millions	146,0	146,0	146,0	146,0	146,0	
DVFA/SG earnings per share in DM	3,35	3,35	4,00	5,35	**6,25**	**(3,20)**
Earnings after minority interests	394	433	485	1,062	657	(336)
Earnings per share in DM						
– Ordinary shares	–	–	3,30	3,80**	4,46	(2,28)
– Preferred shares	–	–	3,40	3,90**	**4,56**	**(2,33)**

* restated in line with IAS

** excluding GFC shareholding

is an essential part of our program to increase shareholder value, and will continue to be present at all major financial centers in the form of briefings and one-to-one discussions.

Good credit ratings confirmed

The Henkel Group maintained its good credit ratings from Standard & Poor's and Moody's. Ratings as of October 1998 were as follows:

- Standard & Poor's

A1+ (short term)
AA- (long term)

- Moody's

P1 (short term)
A1 (long term)

These ratings ensure the Henkel Group's ability to raise capital in the international markets on favorable terms.

International Investment Research

Henkel preferred shares are included in a number of major national and international indices, including the DAX, Euro Stoxx and FTSE Euro-Top 300.

In 1998 and early 1999 research reports were published in Germany by Harald Gruber, Bank Julius Bär, Lutz Grüten, Dresdner Kleinwort Benson Research, Christian Schlimm, Cheuvreux De Virieu, Wolfgang Sawazki and Ludger Mues, West-LB Research, Katrin Spanek, Bankgesellschaft Berlin. In the UK, research on Henkel was published by, among others: Jackie Ashurst and Charles Brown, Goldman Sachs, Simon Bown and Penny Tattersall, Crédit Suisse First Boston, Campbell Gillies and Glynis Jenkins, BT Alex Brown, Peter Houghton, J.P. Morgan, Peter Schouten and Mark van der Geest, Rabobank International, Susanne Seibel, Merrill Lynch, Paul Singer, Crédit Lyonnais Securities Europe, Brian Wilkinson, HSBC Trinkaus, Claire Windle, Morgan Stanley Dean Witter, Hans Zayed, Paribas.

Our research and technology program involves the consistent use of project and knowledge management. This approach has created a basis from which we can channel the knowledge of the entire Henkel Group into the innovation process. Our product portfolio is thus constantly being enhanced by new technologies and new uses for them. Above all, our priority in doing this is to ensure that our creative ideas match the requirements of the market.

Innovation potential for Henkel products successfully utilized

In the year under review, we were again successful in making significant technological progress, with our research and development capability leading to a number of major innovations.

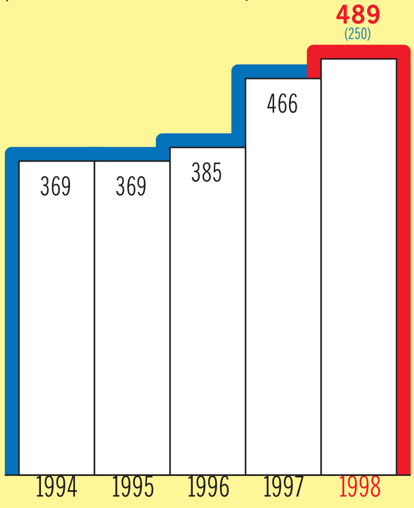
A topical example from the cosmetics sector is our skincare cream Diadermine Bio-Cohesion. Starting with fundamental research into the mechanism of regeneration of the skin barrier in 1996, we were able within just one and a half years to develop a completely new kind of cream designed to combat the process of skin aging. The basis for this is provided by lipid structures which imitate the action of natural systems and strengthen the skin barrier. The procedure adopted for this, also known as the "biomimetic method", can be expected to open for us numerous doors to further developments.

Detergents and household cleansers in tablet form are becoming increasingly popular. Henkel introduced household cleanser tablets to the European market for the first time at the beginning of the 1990s. In Germany and Austria, two-phase tabs, which enhance the bleaching effect of detergents, were launched onto the market. In 1998, Henkel added further impetus to this trend with the launch onto the German dishwasher detergents market of its Somat Profi Tabs with their two-phase action. For the first time in 1998, we also introduced two-phase detergent tabs into several European countries for the brands Persil, Dixan and Le Chat. This two-phase technology enables the separation within the tablet of active ingredients which might otherwise react with each other while still in storage.

In the adhesives and sealants sector, we are also continuing to work on the ecological optimization of our products. For example, through the employment of a new generation of hotmelt adhesives for the labeling of plastic reusable bottles, it is possible substantially to reduce the level of wastewater pollution which arises during the recycling process.

In the case of our industrial adhesives, the focus is on the development of high-performance

Expenditure on Research and Development
Henkel Group
(in DM millions/EUR millions)



technologies for structural joints. This has resulted in, for example, the further development and refinement of special screw fastener locking systems and of sprayable sealing systems for use in the manufacture of engines.

Organic coatings for galvanized steel, which offer enhanced corrosion protection and facilitate the forming processes, have been successfully tested in various automobile production and metal fabrication applications. We have started to market this technology on a worldwide basis. New cleaning agents have also been developed for equipment assembly and component manufacturing applications in the automotive sector. The products are characterized by their high level of environmental compatibility combined with a powerful cleaning action. With the development of cavity-fill and stabilizing polymer foams for the automotive industry, we have also succeeded in facilitating the application of chemical products to enhance vehicle safety.

Innovation awards 1998

The 17th Fritz Henkel Award for Innovation was conferred on the following projects:

- ***Diadermine Bio-Cohesion – biomimetic cream designed to enhance the barrier properties of the skin***
- ***Universal assembly adhesives***
- ***Organic specialty chemicals with improved ecological properties for engineering applications***
- ***"Compactat Pastes" and "Compactomix Metering Unit"***

We have marshaled our extensive expertise in the processing of renewable raw materials and application engineering with a view to developing – for a wide range of different markets – new products offering significant advantages in both performance and environmental compatibility. We have further improved our organic specialty chemicals for the manufacture of paints, coatings, printing inks and adhesives, and also our products for the paper industry, the construction sector and plant care applications. The surfactants used for such applications are derived from vegetable-base renewable raw materials.

A further example for the consistent application of our specialist knowledge and project management capabilities is that of the development of chitosan. This is a highly effective cosmetic raw material manufactured from natural marine skeletal matter to a quality which has previously not been available on the market. The "simultaneous development" process applied, which is characterized by the integrated coordination of our marketing, product development, process development and engineering functions, meant that we were able to release the product for marketing by the end of 1998, i.e. within just a few months of project inception.

Securing the future with new technologies and products

Our explorative research is concentrating on new multi-disciplinary hybrid technologies as the launching pad for developing new products and applications. Examples include new on-line technologies, applications in the field of chemical nanotechnology, and work aligned to the development of "intelligent systems". This latter departure will lead to a new generation of products in which intrinsic properties can be specifically controlled. The utilization of external expertise has long been an established approach at Henkel as a means of accelerating and providing additional impetus to its own in-house research and development effort. We therefore intend to increase our financial commitment to venture capital funds. We have currently earmarked approx. DM 20 million for such funds. We hope that, through close cooperation with external partners, we will be able to identify, at an early stage, innovations relevant to our operations.

Outlook

With the strategic alignment of our research and development activities, we shall continue to be able to create innovative products and thus contribute to securing the future and increasing the profitability of the Company. The expenditure on research and development planned for the attainment of these aims will continue to track sales revenue at the current ratio level.

It is a central function of our human resources management to empower our employees to become proactive in their involvement in change. The aim is to link the positive elements of our tradition to concepts aligned to the future.

New personnel strategy

We have reviewed our personnel strategy and aligned it even more stringently to the requirements which arise from Henkel's position as a group of companies active on a global scale. The purpose is to achieve ongoing evolution in our organization, our corporate culture, employee behavior and our human resources systems. With this new approach, we intend to influence more effectively the attitudes and responses of our employees within a framework of change.

Corporate culture

Trust is for us the essential basis for effective cooperation. We have created the conditions under which such a culture of confidence can develop. The benefits are apparent in the dealings of our employees and managers with one another and with our customers.

We have introduced a "Qualitative Management Style Analysis" in which employees assess their superiors through the medium of standardized questionnaires. The results of this survey form the basis for specific discussions concerning desirable changes in subordinate-superior relationships.

Personnel development

We set great store by promotion from within our own ranks as intrinsic to our personnel development and planning. We have thus developed various processes to facilitate effective advancement.

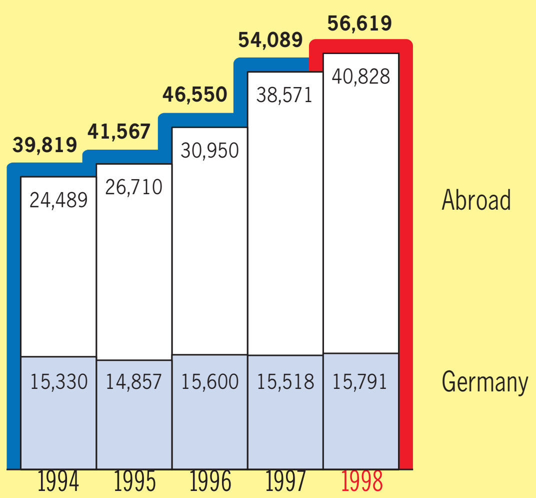
For example, we have established twelve categories of management capability which reflect essential managerial abilities and behavioral responses. The worldwide introduction of this catalog of criteria coincided with the implementation of an assessment system which also focuses on performance capabilities and crucial competences.

All our managers were appraised in 1998 on the basis of this newly developed procedure dubbed the "Management Competencies Assessment". Each manager received a specific evaluation of their performance to date and of their future development potential.

A so-called Management Review enables us to identify suitable young candidates for managerial functions. It forms the basis for advancement and promotion, and highlights the performance capabilities and potential of the entire management team of the Henkel Group. We have extended our range of training services for managerial personnel at the international level and restructured it under the heading "Henkel Global Academy". In 1998, the Henkel Group invested three percent of the total value of remunerations in training and further education measures.

Our proactive encouragement of intercultural competence and experience ensures that our

Employees at the Henkel Group Dec. 31*



* excluding work experience students, interns and participants in part-time retirement schemes currently in their lay-off phase

managers are able to perform their tasks more successfully within our international corporate structure. The application of job rotation schedules – with a systematic interchange of functions and responsibilities – provides an effective complement to our program of personnel development activities. Under the heading “Triple-2 System” we have developed a concept whereby employees gather experience in at least two business sectors, two different functions and two countries in order to prepare and qualify them for more demanding managerial tasks.

Human resources systems

The alignment of the Company to performance and results is reflected by a correspondingly coordinated salaries and remuneration system. Last year we established Group-wide standards for determining remuneration – allowing for the necessary scope to reflect local market requirements – under the auspices of our “Compensation Management” scheme. Regular national and international remuneration studies ensure the competitiveness of our salaries system.

Indices

We align our human resources management activities to a range of indices. One of these control variables is the payroll cost ratio. This describes the ratio between personnel expenditure and sales revenue. In 1998, we succeeded in reducing this ratio by 0.4 percentage points to 20.1 percent.

Another indicator – the number of suggestions for improvements submitted in a given year – flags up the general commitment of our employees to the Company. In Düsseldorf-Holthausen, this figure increased in 1998 by 32 percent to 4,493 suggestions. During their first year of introduction, the implemented improvements led to savings amounting to DM 6.3 million.

We monitor developments in relation to the number of notifiable incidents particularly closely. Again in 1998, we invested a great deal of effort and resources in enhancing industrial and labor safety and improving the safety awareness of our employees. With these incident numbers already having decreased considerably in the course of preceding years, the figure for 1998 in Germany remained at a constant low, while in the other European countries it decreased once again.

Movements in personnel numbers

The total workforce at the Henkel Group rose in 1998 by 2,530 to 56,619. This increase was attributable, in particular, to acquisitions abroad. The expansion of our business in Eastern Europe also resulted in higher staffing levels. In Germany, the number of employees rose by 273 to a total of 15,791.

The proportion of total employees located outside Germany as at the end of 1998 lay at 72 percent.

In 1999, the number of employees abroad is expected to increase slightly, while levels in Germany are likely to remain stable.

A word of thanks to our employees

We would like to express our thanks to all the employees of the Henkel Group for their dedication and hard work in 1998. This enabled us to again achieve good results in the year under review. Our gratitude also goes to the employee representative bodies for their constructive and loyal cooperation.

Outlook

1999 will see further widespread application of our management development concept. Our aim here is to further enhance the performance capabilities of our employees and thus achieve an improvement in our competitive position. The instruments of personnel policy which have been adopted to date have been accepted by our managerial staff. They must, however, now be more rigorously applied, more effectively embedded in the culture of the business units and more clearly communicated to all involved.

Sales revenue generated by the existing businesses of the Henkel Group in 1998 rose by 4 percent after eliminating exchange rate influences. All our business sectors contributed to this internally generated growth.

Chemical Products

Position maintained in spite of difficult conditions

- **Market success through specialization**
- **Sharper customer focus**
- **New markets for products from natural raw materials**

The Chemical Products business sector performed satisfactorily in 1998. The brisk demand which had characterized fiscal 1997 held steady until the middle of the year. During the second half of 1998, however, there was a significant downturn in business activity. Sales were only slightly above the level for the previous year. However, after allowing for exchange rate factors, the increase amounted to 4 percent.

Oleochemicals product groups: Fatty acids; glycerine and fatty acid derivatives; fatty alcohols and their derivatives; food and feedstuff additives; natural-source vitamin E and carotenoids. **Care Chemicals product groups:** Products for the cosmetics, toiletries and pharmaceutical industries, for detergents and household cleansers; aroma chemicals/perfume compositions. **Organic Specialty Chemicals product groups:** Base materials and additives for plastics, paint and coatings; auxiliary products for textile, leather and paper production; specialty products for mining, oil drilling, and for lubricants, plant care formulations and the construction industry. **Inorganic Products:** Water glass

Although the level of business activity in the chemicals sector deteriorated, our sales in Europe increased by 3 percent after excluding exchange rate influences.

Taking the same exchange rate basis, we achieved growth overseas amounting to 4 percent compared with last year.

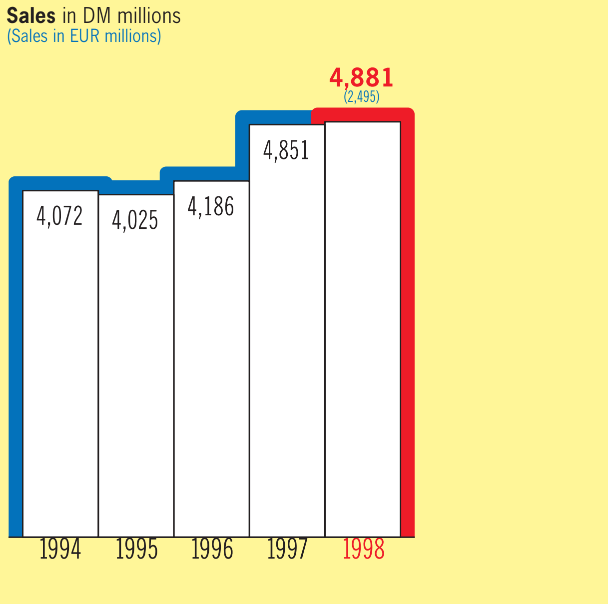
Oleochemicals

The markets for our oleochemical products initially showed very encouraging developments in 1998. During the second half of the year, however, there was a significant dip in demand. Overall, Oleochemicals achieved a rate of growth of 2 percent, or 5 percent after allowing for exchange rate movements. In the case of our oleochemical base materials – fatty acids and fatty alcohols – the Asian crisis in the second half of the year under review, and the tense economic situation in Latin America, had an adverse influence on results.

Nevertheless, we were able to further expand our fatty acid business from our Malaysian base, and also our worldwide fatty alcohol business. On the food additives sector, we further strengthened our business platform through the acquisition of Protina, Düsseldorf, Germany, and Lactovit, Bischheim, France.

We enjoyed further success with our natural-source anti-oxidants. The growth in sales

Share of Group sales 23 %



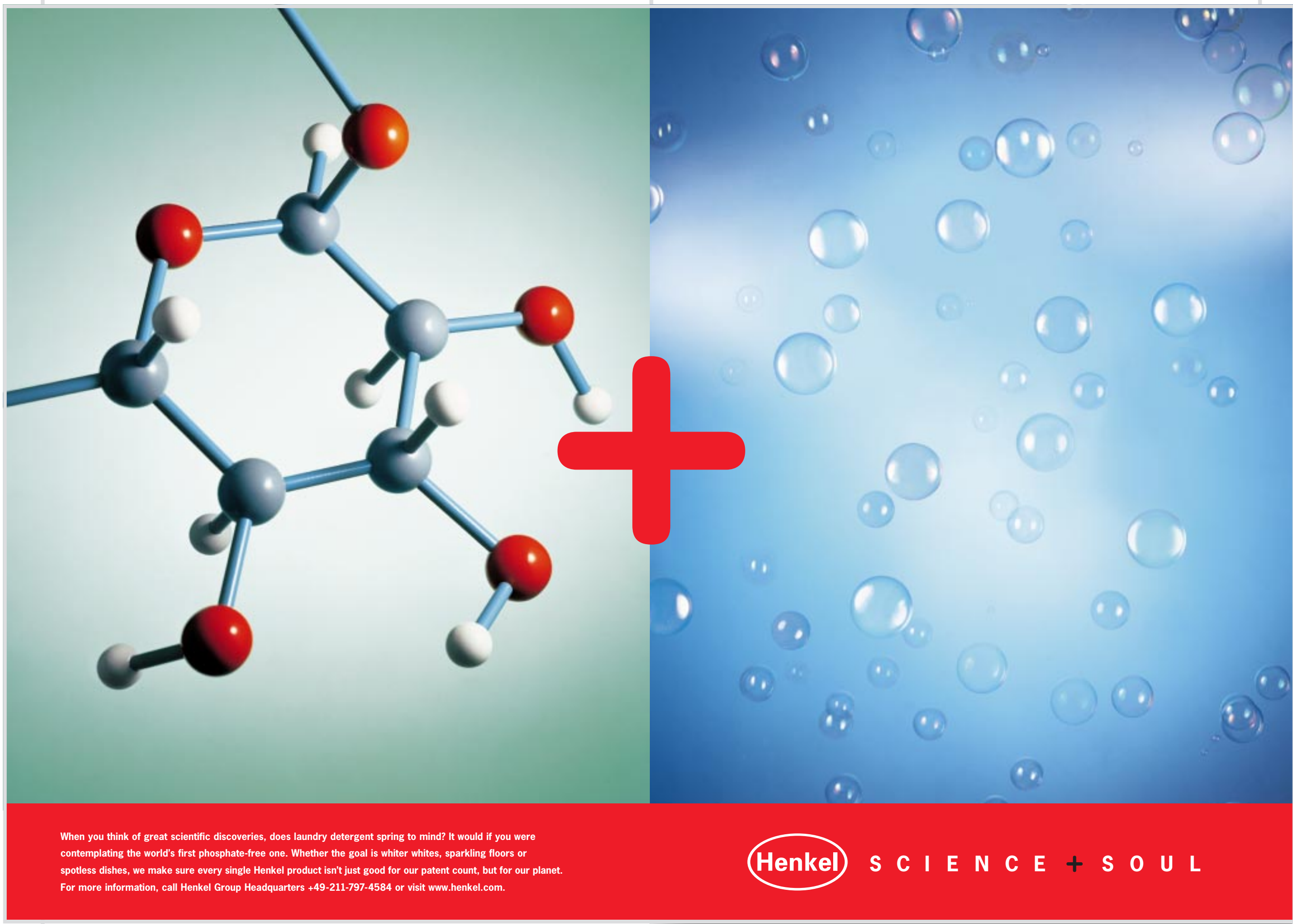
was boosted by our carotenoids business. We have developed new sales areas in the food sector with our vegetable-based sterols. In general terms, the activities of the specialty businesses of our Oleochemicals division are aligned to the fast-growing markets of healthcare and dietetically improved foods.

Our oleochemicals business has achieved an important strategic stage in its development: In the case of our oleochemical base materials, we are now represented in Asia, Europe and North America by fatty acid and fatty alcohol production facilities and by strong marketing units. The food additives unit now boasts an additional production center in France and has, in addition, supplemented its international activities through a joint venture in Uzbekistan. With the purchase of a further algae breeding plant in Hutt Lagoon, Australia, we have ensured the ongoing growth of our beta carotene business for the next few years.

Care Chemicals

Our Care Chemicals division likewise enjoyed the fruits of brisk demand until the middle of the year. Thereafter, business stabilized at a high level of activity. The crisis in Asia and the upward movement of the German mark against the US dollar had an adverse effect on our exports. Sales increased by 3 percent nominally or, after allowing for foreign exchange influences, 7 percent. The growth in sales was particularly gratifying in the case of our cosmetic base materials and active ingredients, and also our base materials for detergents, dishwashing liquids and household cleansers.

In October 1998, we started up our production plant in Norway for the manufacture of chitosan, a new natural cosmetic active ingredient



Whiter whites, sparkling floors or spotless dishes – whatever the development, our scientists and application engineers are keen to improve not only our patents portfolio but also the quality of life of people everywhere.

derived from crab shells. Chitosan is used in hair and skincare products primarily, and also in deodorants.

Organic Specialty Chemicals

Our Organic Specialty Chemicals business concentrated on market segments offering profitable growth. This involved the implementation of measures to optimize our product range and more emphasis on specialization within our portfolio groupings.

As a result, we were able to extensively offset a decline in sales in regions suffering from adverse economic conditions. Sales in 1998 were 2 percent down compared to last year.

Our heavy dependence on the construction industry had a considerably detrimental effect on sales growth in the case of our base materials and additives for plastics, paint and coatings. Even innovative products offering improved environmental compatibility met with considerable market reticence.

In spite of intensive competition, the textile auxiliary products unit was able to hold sales at almost the same level in Asia and even achieve a degree of expansion in Europe. This was the result of our focusing on growing, more profitable market segments and an improved technical service capability.

As a result of the very considerable decline in demand for leather products, particularly in Russia, which especially affected Turkish manufacturers, the restructuring of our leather products business has not yet resulted in the sales expansion levels which we had envisioned. The flexible utilization of our capabilities in countries where the market anticipations are higher was reflected in small market share gains.

Our paper auxiliaries business – now reduced in size following the sale of our activities in North America – performed very well in the year under review. Our concentration on profitable customer-specific projects backed up by an innovative service capability was an important factor in this success.

In the case of our specialty chemicals for copper extraction, we were unable to maintain sales at last year's level owing to the drop in copper prices and the overcapacities which ensued. As part of a settlement in a patent litigation involving the company Inspec, we took over the latter's worldwide activities in the copper extraction market in the last quarter of 1998.

Our Oilfield Chemicals unit, which is responsible for our specialty oil drilling products, was again successful with its ecologically sound solutions. Its growth in sales further accelerated from the 1997 rate to double-digit numbers this time.

In the synthetic lubricants sector, our business with formulated products for transmission and axle oils underwent a small degree of expansion, while components sales stagnated.

In the case of our products for plant protection and care applications, we continued to make further progress on the basis of a number of major new approvals granted by large life science companies. Our water glass business remained buoyant on the back of a boom in effective volume demand. The level of utilization of our production capacities was satisfactory.

Outlook

We expect 1999 to bring a small degree of growth in the markets for our chemical products. In the regions of South East Asia and Latin America in particular, the economic situation is likely to remain difficult. In 1999, therefore, we shall continue to drive forward our programs for increasing efficiency and reducing costs.

In Europe, we are striving to achieve a substantial reduction in our current assets. At the same time, we intend to further improve our supply capability. Our native raw materials base and the global structures of our businesses mean that, in the future too, we can look forward to development opportunities promising earnings growth. With increasing concentration on specialty products, we intend to further expand our market positions and, by this means, effectively improve on a permanent basis the profitability of our chemicals business.

Surface Technologies

Sales up in spite of Asian crisis

- **Major improvement in Europe**
- **Business with the automotive industry consolidated**

The Surface Technologies business sector achieved an increase in sales in 1998 of 4 percent. Sales to the automotive industry were particularly high. Our business in Europe developed especially well.

Europe

With the order books of most European vehicle manufacturers consistently healthy, our business with the automotive industry grew significantly throughout Europe, with impressive double-digit rates of increase being attained in the adhesives and sealants sectors. One of the decisive contributory factors in this respect was an across-the-board improvement in our position with all the leading automobile manufacturers – in terms both of the technology of surface pretreatment and also the employment of special waxes and structural adhesives. New projects on the rapidly expanding sector of autobody reinforcement provided an additional boost to sales. Within the Central and Eastern European region, our activities in Poland and Hungary saw rapid increases.

Our industrial (non-automotive) business also profited from the good capacity utilization levels enjoyed by our customers. The deployment of regional business teams to ensure the consistency of our approach demanded by our regional/global customers has been highly successful. Against heavy competition, we were able to win new customers in the automotive components, machine construction and aluminum and steel industries. In the case of rolling oils for the steel industry, we continued to enjoy success in Germany, France, Belgium and in Eastern Europe. We were likewise able to achieve an expansion in sales in lubricants used for the manufacture of beverage cans. We were also able to gain a foothold in the Russian market for this product group.

Our pan-European marketing activities involving specialty products and technologies for autophoretic coatings of vehicle components continued to have a favorable impact. We have now convinced a total of fifteen components suppliers as to the undoubted merits of this advanced process.

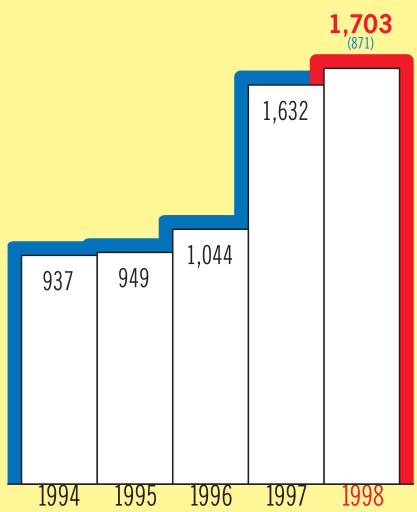
Product groups: Products and application systems for the chemical surface treatment of metals and metal substitutes; lubricants; cleaning products; corrosion inhibitors; products for conversion processing and for the treatment of cooling, process and wastewater; process control and metering equipment; antifreeze agents and corrosion inhibitors for motor 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.

North America

We were able to further extend and consolidate our market lead in all the major branches of industry which we serve in North America. We achieved increases in sales in the market segments beverage cans, steel and steel surface treatment, and also with the automotive components suppliers of the region. Our sales to the automotive industry remained at the level of the preceding year in spite of shortfalls arising from the strike at General Motors. We responded to the increasing trend toward "Chemical Man-

Share of Group sales 8 %

Sales in DM millions
(Sales in EUR millions)



agement" (full-line service) with an expanded concept involving not only products and systems but also a monitoring service for all the associated process stages and production sequences. We achieved further sales successes with our structural adhesives in the vehicle construction and other automotive segments, and with lubricants for rolling, deep-drawing and cold-forming processes in the metal processing industry. We have also opened up new sales opportunities in the North American aircraft industry.

Latin America / Africa

Overall, our performance in the Latin American markets was generally successful. Good sales growth was achieved in Mexico and Argentina, particularly in the automotive sectors. In Brazil, we acquired the company Tirreno, the second largest manufacturer of adhesives and sealants in the country. With all our activities in this segment now under one roof, we have assumed the mantle of market leader. We further strengthened our presence in the major Latin American markets by taking over the business of our previous licensee in Chile.

In South Africa, business performance was below expectations due to automobile production in the country being below forecast.

Asia Pacific

In the Asia Pacific region, there was a considerable downturn in demand during the second quarter owing to the developing economic crisis. This effectively halted the upward trend which had long characterized our business in the region. Particularly hit by the economic slump were the automotive and construction industries. However, even in this recessive business environment we were able to maintain our market positions overall and achieve further expansion in the steel industry.

Our business in China continued to perform well. We succeeded in gaining market share in the automotive industry, the beverage can manufacturing sector and also in the steel and aluminum processing industries. In Japan, business suffered from the prevailing low level of industrial production. Sales increases in the electronics and aluminum industries were unable to offset the considerable losses in revenue which occurred in other core sectors. We expanded our market positions in Korea and Taiwan.

With the acquisition of Maxwell in Australia, we were able to further strengthen our business in adhesives and sealants for the automotive industry. We also saw an increase in sales to beverage can manufacturers and automotive components suppliers. In New Zealand, we were able to successfully defend our leading position.

Our joint ventures in India improved on their results from last time in spite of the downturn in the national economy. Falling production figures in the automotive industry had an adverse effect on our business performance in this sector. We were able to show good progress in the household appliance manufacturing segment and also the steel processing industry.

Production

A new factory for adhesives and sealants came on stream at the beginning of 1998 at Henkel Argentina in Avellaneda. All the activities of the plastisol business of Argenpisa, acquired in 1996, have now been integrated within Henkel Argentina. In Brazil, the relocation of the acquired plastisol business of Takiplas to, and also the integration of Novamax within our Diadema site were completed.

In order to expand our business in Eastern Europe, we have started up a local production capability in a wholly-owned facility in Poland.

Outlook

The most important goal for 1999 is to align our worldwide units to an improvement in the return on investment.

Other major focal points include the following:

- Integration and exploitation of synergies arising from the new acquisitions in Australia, Brazil and France.
- Enhancing our innovation capabilities and reducing time-to-market on the development side.
- Reducing delivery periods while at the same time decreasing inventories and streamlining our product portfolio.

Adhesives

World market leadership further extended

- **Consumer adhesives show good progress**
- **Promising development in the USA**
- **Industrial business influenced by regional crises**

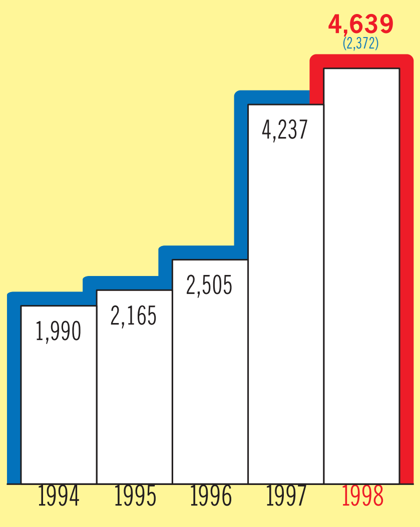
Sales at our Adhesives business sector rose by 9 percent compared with the previous year. We were able to further consolidate our position as world market leader in the adhesives sector. The integration of Loctite contributed substantially to sustaining these favorable developments. The acquisition of Manco in the USA was an important milestone in our adhesives business strategy as it provides us with a strong foothold in the American do-it-yourself segment. There is enormous potential here for Henkel adhesives.

Consumer and Craftsmen Adhesives

Sales of our consumer and craftsmen adhesives rose in 1998 by 18 percent. This increase is largely attributable to the takeover of Manco. The company is a leading supplier in the USA of a wide range of end-consumer adhesives and adhesive tapes which are marketed under the well known “Duck” brand.

Share of Group sales 22 %

Sales in DM millions
(Sales in EUR millions)



Our existing business also performed well in 1998. Business in Europe, which developed at above-average rates, more than offset the losses in revenue which arose from the regional crises in Russia, Latin America and Asia. In North America, comprehensive restructuring measures were completed which, with the bundling of the activities of Manco, LePage and the consumer adhesives of Loctite in 1999, will lead to higher efficiency.

In the paper, office products and stationery market segment, business with glue and correction rollers developed particularly well. These products are now also being sold to the US American market through Manco. In Japan, we expanded our distribution network for our auxiliary products for the paper, office and stationery sector by entering into a joint venture agreement with the major local supplier Kokuyo.

Consumer and Craftsmen Adhesives product groups: 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; glue sticks, glue rollers, correction rollers, adhesive tapes. **Industrial and Packaging Adhesives product groups:** Packaging and labeling adhesives; shoe adhesives; cigarette adhesives; bookbinding adhesives; adhesives for the wood processing industry; laminating adhesives; adhesives for nonwovens; leather board. **Engineering Adhesives product groups:** Reactive adhesives; high-performance sealants; sealing systems; assembly adhesives.

Our worldwide business with the Loctite superglues – supported by new product launches – has continued to perform well following integration into the Henkel structures.

The international launch campaigns of our new humidity absorbers and assembly adhesives (“No More Nails” concept) were particularly successful. Our traditional decorating products for the do-it-yourself sector also performed well.

Our products for the joinery trade continued to enjoy market success. The sequence of innovations in this sector continued in 1998 with our Ponal Rapido expansion adhesive. In the case of our building chemicals businesses, the focus for regional growth in 1998 was again Eastern Europe. Thanks to the acquisition of a majority holding in the company Kemikal, we were able

to attain a leading position on the Hungarian market for building chemical products. The beginning of 1998 also saw the establishment of the building chemicals company Henkel Bautechnik Ukraine.

Industrial and Packaging Adhesives

In spite of the crisis situation, business in the Asia Pacific region held at the level of the previous year.

Our adhesives for labeling and the commercial arts and graphics industry experienced a considerable upturn in sales. A contributory factor to this pleasing development was the introduction of new technologies which enabled our customers to increase the output of their machines.

Our solvent-free laminating plastics succeeded in breaking into the market, with products of our new Liofol generation set to be exclusively employed in newly installed facilities.

Our business with adhesives for the wood processing and furniture industries is centrally controlled by our subsidiary Dorus Klebetechnik in Bopfingen, Germany. High growth rates were

A product is only better if it makes the life of our customers easier, safer and better. With this as our underlying principle, we have, for example, become the world's largest manufacturer of adhesives.

achieved worldwide thanks to the systematic international expansion of our marketing and distribution structures.

Our packaging adhesives also performed well. The introduction of new product technologies and the effective development of the relevant market segments were important contributory factors in this respect.

New solvent-free technologies were developed for the shoe adhesives sector.

Engineering Adhesives

Incorporated into this business are the industrial adhesives and automotive aftermarket repair products of Loctite, the Teroson automotive after products and the engineering adhesives of Henkel. These products are marketed in approx. 50 different countries. In 1998, this unit achieved an increase in sales of 3 percent.

The engineering adhesives product group covers industrial reactive adhesives and also high-performance sealants and sealing systems for the automotive and electronics industries.

In the year under review, we were successful with a number of important product launches in the form of chip adhesives for the electronics market, and high-performance sealants for the automotive market. These products are based on developments by the Loctite Corporation. In addition, the acquisition of the Chemical Products Division of the Fel-Pro Corp. in the USA enabled us to introduce a range of specialty products onto the market.

Our automotive after products business concentrates mainly on Europe.

In the more mature markets where the number of vehicles on the road only increases at a very slow rate overall and where the quality of vehicle manufacturing has also improved in recent years, the level of growth which occurs in the aftermarket is limited. In the USA, therefore, we are currently negotiating the sale of this business.

Our engineering adhesives enjoy a strong market position, particularly in Europe. In 1998, a Working Group was formed with the objective of exporting the successes achieved in Europe to other regions of the world, particularly North America, Latin America and Asia. Thanks to the strength of our technologies, we consider that our market opportunities are excellent in these regions.

Outlook

We have planned a number of strategic measures in order to secure and further expand our position as market leader. The most important of these are as follows:

- New product launches worldwide in the consumer and craftsmen adhesives market
- Expansion of our American businesses
- Further globalization of our businesses selling industrial adhesives
- Exploitation of the potential growth which exists in the case of our engineering adhesives
- Worldwide reductions in capital tie-up; initiatives for reducing costs, optimizing our production facilities and improving profitability.

Cosmetics/Toiletries

Going global with strong brands

- **Europe's market leader in shower products**
- **Promising market entry in the USA**
- **Europe-wide colorants campaign successful**

The Cosmetics/Toiletries business sector saw sales for the year pass the DM 3 billion mark for the first time. Indeed, revenue for 1998 rose by 12 percent over last year to DM 3,335 million.

We have further improved our business structure in this sector – not only with the takeover of the former Schwarzkopf businesses, but also through specifically targeted acquisitions. The focal points of our regional expansion program were Europe, Latin America and Asia Pacific. Of strategic importance were the acquisition of Rilken in Greece and also the takeover of the DEP Corporation in the USA which provides us with a foothold in the American market.

The growth experienced by our existing businesses derived from expansion of our core activities in relation to hair cosmetics, toiletries and oral hygiene. The expansion in our business with hair colorants in Europe in particular led to substantial market share gains: Following the introduction of new colorant series in Spain and France, Schwarzkopf & Henkel had attained the position of second largest supplier of hair colorants in these countries by the end of the year under review.

Product groups: Toilet soaps; bath and shower products; deodorants; skin creams; skincare 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.

Solid positions in growing markets and also a revamp of our ranges for the hair salon sector and in the skincare segment likewise contributed to the increase in sales. As part of our range streamlining process, we disposed of a number of marginal brands.

The planned synergies emanating from the acquisition of Schwarzkopf have now been fully realized. In addition, we have further optimized the international structure of our production site network, selling in the process factories in Italy, the Netherlands, Austria and Australia. In all cases, socially acceptable solutions were found for the employees concerned.

The general economic difficulties being experienced in Russia, and also in Asia and Latin America, had a deleterious effect on our business. However, the burden on earnings remained within tolerable limits.

Brand-name products in Germany

We were able to extend the market lead enjoyed by Schwarzkopf & Henkel in the German hair cosmetics sector through various successful activities involving our colorant, hair styling and hair care products. At the focal point of consumer interest was the introduction of Poly Re-Nature Creme which, as a natural-colorant cream, returns gray hair to its original natural color in a gentle and gradual fashion. With this, we have created a completely new category of products. Poly Re-Nature Creme has been especially devised for those users who have so far been unable to find on the market any product suited to their needs. International relaunches of our existing brands Poly Brillance, Poly Blonde, Diadem-Creme-Haarfarbe and Tönungswäsche further secured our leadership in the German colorants market.

In the hair care sector, we were able to further improve our market position with the introduction of new variations on the Poly Kur theme and also a conditioner cream (Haarmilch) in the Gliss Kur series.

The relaunch of our Aok skincare line, initially implemented in Germany at the beginning of the year, met our expectations in full. The newly introduced Aok make-up remover tissues with moisturizing effect also performed particularly well.

Brand-name products abroad

The Fa toiletry brand enjoyed international growth as a result of product innovations and further launches in new countries. Particularly worthy of mention is the successful introduction of the brand in Finland.

The expansion of our Fa liquid soap line and also the introduction of new variants with innovative fragrance concepts such as Fa Aqua and Fa Sunny have revived the market. In the shower products segment, Fa took over the market leadership in Europe.

With an international marketing offensive in the colorants segment, Henkel was able to increase its market share in the hair cosmetics market across Europe to over 12 percent.

In key markets such as Great Britain and France, we have introduced a new generation of colorant products under the brand names Vital Colors, Soyance and Country Colors. This provides us with a platform for the future expansion of our hair cosmetics business in these markets. In France, we achieved a market share of 14 percent in just five months.

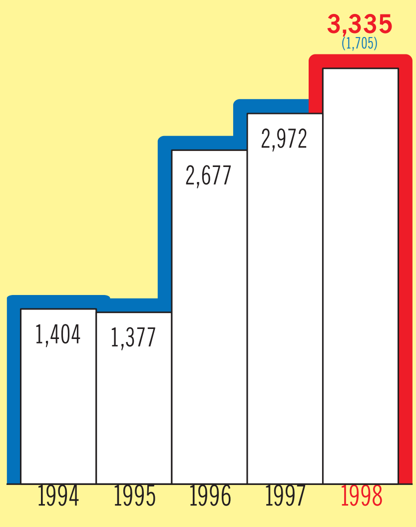
We succeeded in gaining a foothold in the significant North American hair cosmetics market through the takeover of DEP, Los Angeles. The newly established Schwarzkopf & DEP Inc. is a leading supplier in the U.S. styling segment with its two hair styling lines L.A. Looks and DEP.

With an international relaunch of BAC Double Action, we were able both to extend our position in the deodorants segment and open up a new national market with a successful placement in Poland.

The upward trend in our market shares in the oral hygiene sector continued unabated. In Western Europe, we attained the position of fourth largest supplier. We increased our market shares to an all-time high in Belgium with

Share of Group sales 15 %

Sales in DM millions
(Sales in EUR millions)



Theramed, in Spain with Licor del Polo and in Greece with Theramed 2in1. A new vitamin variant of Theramed was launched in seven countries. It met with a very good level of consumer acceptance.

With our exclusive designer brand "Genny" for the eau de toilette segment, we have launched a line of products on to the Italian market which is fully compliant with current fashion trends.

Hair salon products business

In spite of unfavorable exchange rate influences emanating from South America and Asia Pacific, our hair salon products business grew in 1998 by 7 percent.

In its centennial year, the "Schwarzkopf" brand continued to exhibit the same uninterrupted dynamism. We were able to make a clear and lasting impression in the hard-fought hair salon products market with an international relaunch of our hair care line Bonacure, a repositioning of our Clynol Coregin series of hair products, the introduction of Igora Soft Personality and also a range of new concepts for our Hair Sculpture spray-on mousse. The takeover of distributors in Italy, Sweden, Malaysia and Singapore contributed to the growth in sales. As a competent partner of the hair salon business, Schwarzkopf Professional was able in 1998 to successfully defend its position as number three in the world market.

Outlook

We expect sales to grow in 1999 to more than DM 3.5 billion.

The European markets will continue to be major targets for our growth strategy. In addition, we intend gradually to expand our business in Asia Pacific, South America and the large North American market with the objective of achieving a truly global presence.

We will continue to develop our range of products more specifically toward transnational and global brands. We shall carry regional brands in accordance with the earnings level which they achieve, and also divest where appropriate.

We shall continue to apply the discipline of rigorous cost management in all areas. We particularly see potential for further cost reductions through optimizing the delivery chain to the end customer.

We will concentrate our market investments on our international brands, focusing particularly on hair cosmetics.

Detergents/Household Cleansers

Growth despite stagnant markets

- **Innovative product ranges well received by consumers**
- **Detergent tablets boost growth**
- **Despite economic difficulties, positions in markets outside Europe maintained**

Sales in the Detergents/Household Cleansers business sector increased by 6 percent in 1998 versus the previous year.

Detergents

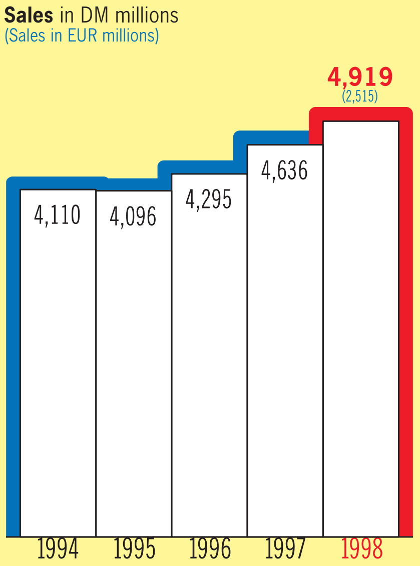
Overall, in the detergents market, sales by volume stagnated and grew only slightly by value. Nevertheless, we achieved above-average growth in 1998 and further expanded our market share.

Besides maintaining our strong position in standard powders, we succeeded in further increasing our market shares in the promising concentrates and liquids segments.

Strong improvements in Megaperls sales and the international implementation of our new gel technology were the driving factors for this growth. A further boost to results came from the introduction of our detergent tablets in the most important European countries. The initial market results are very promising, indicating that we have passed yet another milestone in the

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

Share of Group sales 23 %



development of our detergents business. Besides strengthening the market positions of our international brands Persil and Dixan, we also increased the market shares of our important national brands. Growth was especially attained in France, Italy, Austria, Switzerland, Turkey and the Netherlands.

In Germany, our largest national market, we maintained our already high market share in universal detergents. The good performance of Persil was further enhanced by the fall launch of Persil Tabs. This further continued the successful innovation strategy with which the name Persil is synonymous, and resulted in the highest market share in the history of the brand.

Our specialty detergents also maintained strong market positions. New growth impetus in Germany, France, the Netherlands and Austria resulted in particular from the introduction of detergents in gel and tablet form.

In the fabric softeners segment, we achieved substantial gains in almost all countries due mainly to the successful introduction of attractive new fragrances.

Household cleansers and care products

Despite a highly competitive and virtually stagnant market, we achieved double-digit sales increases in our household cleansers and care products throughout Europe. In the dishwasher detergents sector, we successfully launched Somat Profi at the beginning of 1998. The product has quickly attained a high level of consumer acceptance. A significant increase in market share in Germany was achieved within only a few months after the launch. Somat Profi has also made successful progress in Austria and France.

In the hand dishwashing detergents segment, we further increased sales and market shares during 1998 as the result of several innovative product launches. Mir Vinaigre in France almost doubled its market share, cutting the gap to the market leader by half. The Vinaigre concept is currently being introduced in Turkey where we are the clear market leader with Pril. In Spain, we expanded our position in the growing concentrates segment with the relaunch of Mistol Antibacterial and a variant, particularly gentle to hands, which was introduced in the middle of 1998.

Also in the middle of 1998, we launched Pril Kraft-Gel, an innovative product which immediately achieved high sales.

In the household cleansers sector, the excellent performance of Thompson in Germany is particularly noteworthy. In the specialty segments of limescale removal and glass cleaning, Thompson posted double-digit sales growth.

WC-Frisch continued to perform well. Launched in Germany in 1997, this product is now sold throughout Europe and is well on its way to market leadership in all countries.

Thanks to the efficient deployment of our advertising resources, we increased sales of our all-purpose cleaners by 10 percent.

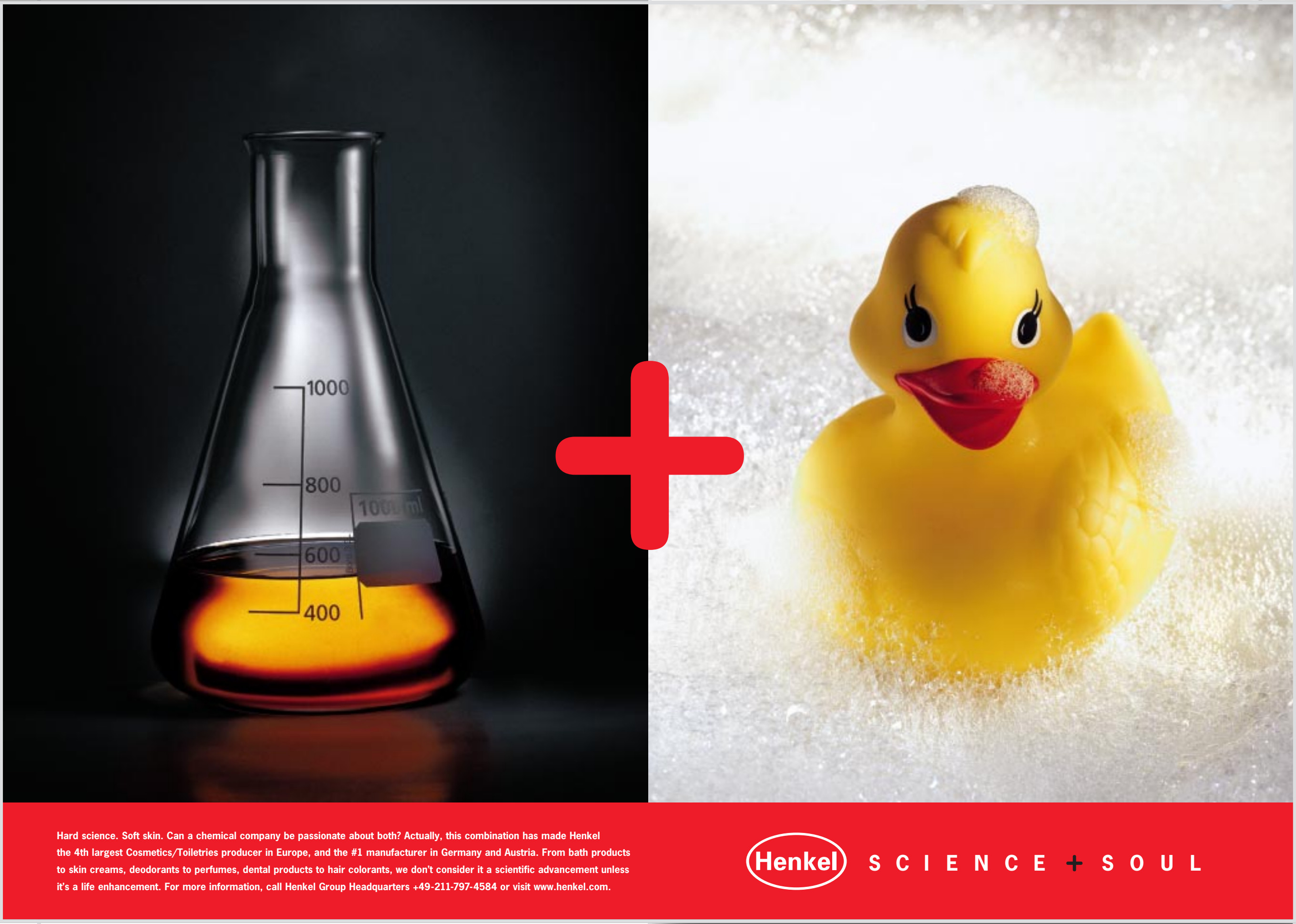
New markets

Our business in Russia, where we are active with two companies, suffered during the second half of 1998 from the steep depreciation of the ruble. Nevertheless, we were able to defend our positions relatively well within the context of this difficult economic environment. We believe that, in the future as well, we will continue to be able to successfully hold our own in the Russian market. Our product range, which consists of both Russian and international brands, is already well established and covers all the price segments. Our local production capability in particular enables us to keep costs low and respond flexibly to changes in the economic environment.

In China, too, conditions governing the development of our business remained difficult. The detergents market stagnated and the intensity of competition increased. We concentrated on those products from our range offering high returns, further expanded our sales and distribution structures, and exploited the synergies which exist between our four production sites. Thus, despite the general economic difficulties which prevailed, we were able to ensure satisfactory development. In volume terms, we have now become the largest supplier of detergents in China.

In the Indian market, we were able to achieve substantial increases in sales with virtually all our brands, particularly our powder detergent and laundry soap sold under the name Henko.

With our companies in Egypt, Israel, Lebanon, Tunisia and, since 1998, also in the Gulf region, we have been able to participate in the constant growth which has occurred in the detergents and household cleansers market in this part of the world. Through the expansion and harmonization of our product lines, we were able to substantially strengthen our market positions:



Hard technology and science for soft skin. In Henkel's laboratories, we always create new products for hair and skincare, toothpastes and toiletries. The objective of our development work will, however, always remain the same – namely to produce a better product.

- In Egypt, we have expanded our already significant market share with Persil and Der General; Pril is the undisputed market leader in the hand dishwashing detergents sector here.
- In Israel and Lebanon, our brands were able to defend their positions successfully in spite of worsening economic conditions and an increase in competition.
- Our Tunisian operation saw its gratifying performance of the previous year continue. Here we were able to expand our market share to well over 50 percent.
- In Saudi Arabia, we established a joint venture with the Arabian Company for Detergents Ltd., the most important local supplier. We have combined the local product range with our international brands, and with this mix we are able to serve very well the growth markets of the

Arabian peninsular. One of the main pillars for our future business is Persil which, in May 1998, was launched onto the market in Saudi Arabia and the Gulf States.

Outlook

We will continue to concentrate on innovative, high-performance solutions to everyday problems. Through continued development of superior products we intend to further drive growth in potential markets, adding to our already high level of acceptance by retailers and end consumers and ensuring continued growth on an upward curve.

We just missed our sales target of DM 5 billion in 1998 due to the economic crises in Asia Pacific and Russia.

We will continue to focus on both consolidating our market position in Europe and driving forward our expansion outside of Europe. Standardization of our production, packaging and formulations remains one of our top priorities.

New rationalization programs will contribute to further increasing our return on investment.

Industrial and Institutional Hygiene

Gaps in the market now closed

- **New major international customers**
- **Field services offer specialist system consultancy**
- **Innovative product ranges to combat aggressive price competition**

This business is operated in Europe as a joint venture, Henkel-Ecolab, in collaboration with our American partner Ecolab Inc., St. Paul, Minnesota, USA. There is also a smaller operation overseas. Taken together, Henkel-Ecolab and Ecolab are the world market leaders in the industrial and institutional hygiene sector.

Against the background of a market still in decline and highly combative, we were able to increase our sales revenue by 8 percent over last year. Once again, we exceeded our growth objectives for the year under review and were able to make considerable gains in market share.

We closed various gaps in our market development capability by purchasing the ISS Darenas business in Great Britain, concluding a long-term supply contract with ISS as Europe's largest provider of building cleaning services, and expanding of our sales and distribution network in South East Europe (i.a. through the takeover of the company Karaver in Rumania).

We have concluded more widespread cooperation and joint marketing agreements with the trade in Germany and in other countries of Europe, some of which are already at the implementation stage.

Our "Retain, Gain, Grow" strategy has again proven successful and will continue to determine our approach to all future business activities. The main pillars of this strategy are our new, distinctive system packages, effective key account care and the expansion and specialization of our field service staff. We have also initiated a Europe-wide concept for closer cooperation with the wholesale trade.

Product groups: Products, appliances, equipment, systems and services for cleaning, laundry care, maintenance, sanitizing and disinfecting applications at major industrial and institutional customers, in the food and beverage industry and in the agricultural sector.

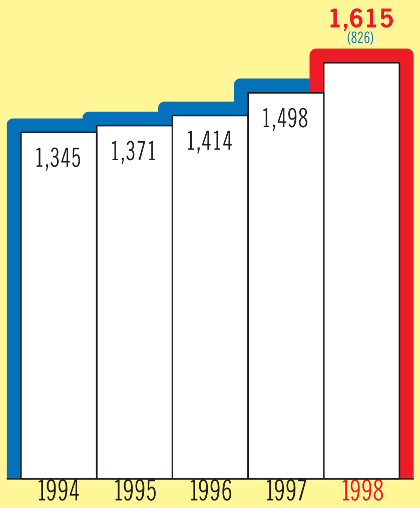
During 1998, we introduced further initiatives to simplify our organizational procedures and reduce costs in production, logistics and administration.

Our payroll has grown by 260 employees partly as a result of acquisitions, so that we now have a total workforce of more than 4,500 employees. Of this figure, approx. 2,500 are active on the sales and service side.

Our Institutional Hygiene business unit strengthened its leading market position. The process of integrating the distribution company Ecosan Hygiene, Hanau, Germany, which we took over in 1997, was successfully completed. We were once again able to substantially expand our key account business having attracted new major customers such as IKEA and the Robinson Club. In France, we were able to conclude a long-term supply agreement with Caresa, the second largest catering company in the country. We have thus further strengthened our leading position in this market segment.

We have updated and expanded our range of system packages. Our goal is to be able to

Share of Group sales 8 %



offer also "smaller" customers clearly defined, safe and reliable systems which are tailored to their specific requirements, so enabling them to operate more efficiently and reduce costs.

Our Professional Hygiene business unit has gained substantially in weight through the acquisition of Darenas in Great Britain. It has also adopted a marketing concept which points the way forward for our entire European business. An important component of this new approach is that of on-schedule local delivery to the customer. The Darenas business performed very well as a result of specific campaigns involving major building cleaning companies. The conclusion of the long-term international supply agreement with ISS has led to a greater degree of standardization and European alignment within the unit. The new "Europe" range for ISS encompasses approx. 130 products and replaces more than 2000 local products/packaging units.

Our Hospital Hygiene business in Germany was adversely affected by the change in existing metering/dosage regulations in relation to, for example, surface disinfection, and also the introduction of new test methods. In the countries of Central and Eastern Europe, and particularly in Poland, sales once again grew at double-digit rates. We intend to further expand our business activities, although acquiring the registration permits necessary for each individual country is likely to be a lengthy process.

The markets in which our Food & Beverage / P3 Hygiene business unit operates have been affected by a mixture of influences: Growth in the food and pharmaceutical industries, concentration in the brewing business and in the milk processing industry, and stagnation in agriculture.

We have therefore decided to be more selective in our allocation of resources in these market segments. In particular, we intend to cater more specifically to the needs of major customers operating on a cross-regional basis.

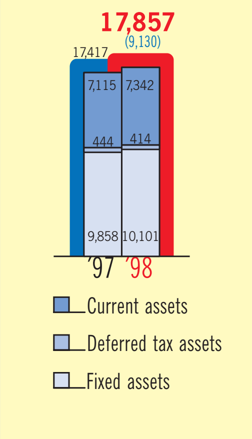
Our cooperation with Nestlē was provided with a new framework in the form of a Cleaning Manual which corresponds to the Nestlē Quality System. As a result, Henkel-Ecolab and Ecolab now enjoy "Preferred Supplier" status on a worldwide basis.

Sales problems in the German beverage industry were offset by an increase in revenues from the beverage industry of Southern Europe which resulted from favorable weather conditions. We took over the business of our previous distributor in Rumania in the third quarter of 1998.

As undisputed market leader, the Textile Hygiene business unit is unlikely to achieve major growth rates. However, it is in a position to add new impetus to make the market more dynamic. Following the successful introduction of our paste technology in Central Europe, we have now developed a second generation of pastes ready for commercialization. Our new data management system designed for large businesses and marketed under the designation HELMS has been very well received by our customers. We have developed a new, patented metering system for the smaller laundry in order to further simplify the process sequence and improve reliability. Thanks to innovative solutions such as these, we were indeed able to further expand our position – in spite of market shrinkage and tough competition.

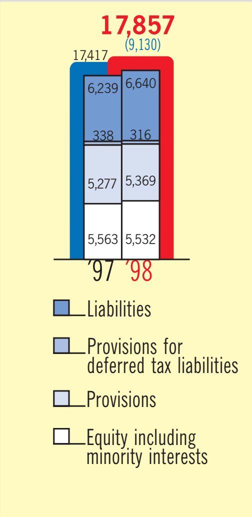
Outlook

We regard the ongoing market difficulties in Europe as a challenge to develop new problem solutions tailored to customer requirements. The growth rates which we have achieved to date indicate that we are on the right road. We are confident that we will be able to further consolidate and expand our market positions, in which endeavor our cooperation with Ecolab will continue to be a key factor.



Assets

Assets	Notes	December 31, 1997 DM mill.	December 31, 1997 %	December 31, 1998 DM mill.	December 31, 1998 (EUR mill.)*	December 31, 1998 %
Intangible assets	[1]	3,989	22.9	4,080	(2,086)	22.9
Tangible assets	[2]	4,859	27.9	4,974	(2,543)	27.9
– Shares in associated companies		918	5.3	940	(480)	5.2
– Other investments		92	0.5	107	(55)	0.6
Financial assets	[3]	1,010	5.8	1,047	(535)	5.8
Fixed assets		9,858	56.6	**10,101**	**(5,164)**	**56.6**
Deferred tax assets	[4]	444	2.6	**414**	**(212)**	**2.3**
Inventories	[5]	2,650	15.2	2,788	(1,426)	15.6
Trade accounts receivable	[6]	3,409	19.6	3,490	(1,784)	19.6
Other receivables and miscellaneous assets	[7]	719	4.1	816	(417)	4.5
Liquid funds/marketable securities	[8]	337	1.9	248	(127)	1.4
Current assets		7,115	40.8	**7,342**	**(3,754)**	**41.1**
Total assets		17,417	100.0	**17,857**	**(9,130)**	**100.0**



Shareholders' equity and liabilities

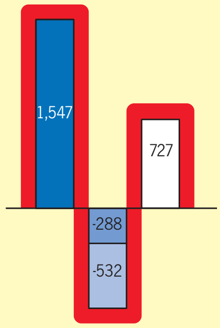
Shareholders' equity and liabilities	Notes	December 31, 1997 DM mill.	December 31, 1997 %	December 31, 1998 DM mill.	December 31, 1998 (EUR mill.)*	December 31, 1998 %
Subscribed capital	[9]	730	4.2	730	(373)	4.1
Capital reserve	[10]	1,276	7.3	1,276	(652)	7.1
Revenue reserves	[11]	3,244	18.6	3,513	(1,796)	19.7
Unappropriated profit		203	1.1	232	(119)	1.3
Currency translation difference	[12]	– 377	– 2.1	– 724	(– 370)	– 4.0
Equity excluding minority interests		5,076	29.1	**5,027**	**(2,570)**	**28.2**
Minority interests	[13]	487	2.8	505	(259)	2.8
Equity including minority interests		5,563	31.9	**5,532**	**(2,829)**	**31.0**
Provisions for pensions and similar obligations	[14]	3,260	18.7	3,468	(1,773)	19.4
Other provisions	[15]	2,017	11.6	1,901	(972)	10.6
Provisions		5,277	30.3	**5,369**	**(2,745)**	**30.0**
Provisions for deferred tax liabilities	[16]	338	2.0	**316**	**(162)**	**1.8**
Borrowings	[17]	3,765	21.6	4,230	(2,163)	23.7
Trade accounts payable	[18]	1,666	9.6	1,572	(803)	8.8
Other liabilities	[19]	808	4.6	838	(428)	4.7
Liabilities		6,239	35.8	**6,640**	**(3,394)**	**37.2**
Total equity and liabilities		17,417	100.0	**17,857**	**(9,130)**	**100.0**
Equity ratio % (equity including minority interests ÷ to total assets)			31.9			31.0

* additional voluntary information; Euro conversion rate as at January 1, 1999

Henkel Group Consolidated Statement of Income

	Notes	1997 DM mill.	1997 %	1998 DM mill.	1998 (EUR mill.) *	1998 %
Sales	[23]	20,065	100.0	21,336	(10,909)	100.0
Cost of sales	[24]	– 10,938	– 54.5	– 11,734	(– 6,000)	– 55.0
Gross profit		9,127	45.5	**9,602**	**(4,909)**	**45.0**
Marketing, selling and distribution costs	[25]	– 5,674	– 28.3	– 6,017	(– 3,076)	– 28.2
Research and development costs	[26]	– 466	– 2.3	– 489	(– 250)	– 2.3
Administrative expenses	[27]	– 1,252	– 6.2	– 1,288	(– 658)	– 6.0
Other operating income	[28]	160	0.8	294	(150)	1.4
Other operating charges	[29]	– 52	– 0.3	– 101	(– 52)	– 0.5
		1,843	9.2	**2,001**	**(1,023)**	**9.4**
Amortization of goodwill	[30]	– 235	– 1.2	– 258	(– 132)	– 1.2
Restructuring costs	[31]	– 235	– 1.2	– 196	(– 100)	– 0.9
Operating profit (EBIT)		1,373	6.8	**1,547**	**(791)**	**7.3**
Net income from associated companies		188	0.9	224	(115)	1.0
Net result from other participations		– 21	– 0.1	11	(5)	–
Net interest expense		– 552	– 2.7	– 523	(– 267)	– 2.4
Financial items	[32]	– 385	– 1.9	**– 288**	**(– 147)**	**– 1.4**
Result from ordinary activities		988	4.9	**1,259**	**(644)**	**5.9**
Gain from sale of GFC shareholding	[33]	969	4.8	**–**	**(–)**	**–**
Earnings before tax		1,957	9.7	**1,259**	**(644)**	**5.9**
Taxes on income	[34]	– 830	– 4.1	– 532	(– 272)	– 2.5
Net earnings		1,127	5.6	**727**	**(372)**	**3.4**
Minority interests	[35]	– 65	– 0.3	– 70	(– 36)	– 0.3
Earnings after minority interests		1,062	5.3	**657**	**(336)**	**3.1**
Allocation to revenue reserves		– 859	– 4.3	– 425	(– 217)	– 2.0
Unappropriated profit		203	1.0	**232**	**(119)**	**1.1**

* additional voluntary information; Euro conversion rate as at January 1, 1999



Figures in DM millions
(figures in EUR millions)

Operating profit	1,547	(791)
Financial items	-288	(-147)
Taxes on income	-532	(-272)
Net earnings	727	(372)

Key ratios

		1997	1998	1998 (EUR)
Return on shareholders' equity % (excl. gain from sale of GFC shareholding in 1997) (net earnings ÷ equity including minority interests at beginning of year)		13.1	13.1	
Interest coverage ratio (earnings before tax + net interest expense ÷ net interest expense)		2.79	3.41	
Ratio of debt to cash flow 1 (borrowings ÷ cash flow)		1.85	2.03	
Ratio of debt to cash flow 2 (borrowings + pension provisions ÷ cash flow)		3.45	3.70	
Earnings per share according to DVFA/SG in DM		5.35	6.25	(3.20)
Earnings per share according to IAS in DM **	– ordinary shares	3.80 ***	4.46	(2.28)
	– preferred shares	3.90 ***	4.56	(2.33)

** see Note 41 to the financial statements *** excl. GFC shareholding

Henkel Group Segment Information in DM millions

Product Divisions	Chemical Products	Surface Technologies	Adhesives	Brand-name products *	Industrial and Institutional Hygiene	Other***	Group
Sales	4,881	1,703	4,639	8,254	1,615	244	21,336
Change from previous year	+ 1 %	+ 4 %	+ 9 %	+ 8 %	+ 8 %	+ 2 %	+ 6 %
Operating profit before depreciation	604	202	694	951	192	45	2,688
Change from previous year	– 4 %	0 %	+ 2 %	+ 7 %	– 8 %	–	+ 5 %
Operating profit	317	129	398	538	129	36	1,547
Change from previous year	+ 2 %	+ 2 %	+ 1 %	+ 15 %	– 8 %**	–	+ 13 %
Return on sales	6.5 %	7.6 %	8.6 %	6.5 %	8.0 %	–	7.3 %
– Return on sales 1997	6.4 %	7.8 %	9.3 %	6.1 %	9.3 %	–	6.8 %
Return on investment	10.4 %	15.4 %	9.3 %	15.9 %	22.5 %	–	12.4 %
– Return on investment 1997	10.0 %	16.1 %	9.8 %	14.3 %	24.7 %	–	11.6 %
Depreciation	287	73	296	413	63	9	1.141
incl. amortization of goodwill	9	17	143	83	6	–	258
Capital expenditure (excl. financial assets)	269	92	287	384	94	13	1.139
Operating assets	3,916	1,124	5,238	5,285	995	381	16,939
Operating liabilities	869	289	960	1,902	421	52	4,493
Net operating assets employed	3,047	835	4,278	3,383	574	329	12,446
Research and development costs (R&D)	110	46	125	160	33	15	489
R&D as % of sales	2.3 %	2.7 %	2.7 %	1.9 %	2.0 %	–	2.3 %

* Cosmetics/Toiletries and Detergents/Household Cleansers

** excluding non-recurring gain from divestment in the previous year: + 3 %

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

Geographical Regions	Germany	Rest of Europe	North America	Latin America	Africa	Asia, Australia	Group
Sales by location of companies	6,044	9,188	3,432	910	265	1,497	21,336
Change from previous year	+ 3 %	+ 8 %	+ 12 %	+ 6 %	+ 10 %	– 3 %	+ 6 %
Proportion of Group sales	28 %	43 %	16 %	4 %	1 %	8 %	100 %
Sales by location of markets	4,944	9,831	3,383	1,059	374	1,745	21,336
Change from previous year	+ 4 %	+ 7 %	+ 12 %	+ 4 %	+ 18 %	– 3 %	+ 6 %
Proportion of Group sales	23 %	46 %	16 %	5 %	2 %	8 %	100 %
Operating profit	621	753	109	43	15	6	1,547
Change from previous year	+ 46 %	+ 10 %	– 32 %	– 30 %	+ 67 %	– 83 %	+ 13 %
Return on sales	10.3 %	8.2 %	3.2 %	4.7 %	5.7 %	0.4 %	7.3 %
– Return on sales 1997	7.3 %	8.0 %	5.2 %	7.1 %	3.7 %	2.3 %	6.8 %
Return on investment	17.6 %	18.1 %	3.8 %	6.8 %	10.8 %	0.5 %	12.4 %
– Return on investment 1997	11.8 %	18.0 %	6.4 %	10.2 %	7.0 %	3.0 %	11.6 %
Depreciation	400	396	220	33	11	81	1,141
Capital expenditure (excl. financial assets)	398	420	154	56	18	93	1,139
Net operating assets employed	3,521	4,159	2,833	631	139	1,163	12,446

Changes in fixed assets

	Intangible assets	Tangible assets	Financial assets	Total DM mill.	Total (EUR mill.)
Cost					
At January 1, 1998	**4,940**	**11,957**	**1,054**	**17,951**	**(9,178)**
Changes in the					
Group/acquisitions	534	259	– 58	735	(376)
Additions	173	966	166	1,305	(667)
Disposals	– 161	– 540	– 8	– 709	(– 362)
Reclassifications	–	15	–	15*	(7)
Translation differences	– 158	– 270	– 90	– 518	(– 265)
At December 31, 1998	**5,328**	**12,387**	**1,064**	**18,779**	**(9,601)**
Accumulated depreciation					
At January 1, 1998	**951**	**7,098**	**44**	**8,093**	**(4,138)**
Changes in the					
Group/acquisitions	45	116	– 36	125	(64)
Depreciation and amortization 1998	372	769	9	1,150	(588)
Disposals	– 90	– 433	–	– 523	(– 267)
Reclassifications	1	– 1	–	–	–
Translation differences	– 31	– 136	–	– 167	(– 86)
At December 31, 1998	**1,248**	**7,413**	**17**	**8,678**	**(4,437)**
Fixed assets (net)					
at December 31, 1998	**4,080**	**4,974**	**1,047**	**10,101**	**(5,164)**

* replacement parts transferred from current assets to fixed assets

The amount charged for depreciation and amortization in 1998 comprises:	Intangible assets	Tangible assets	Financial assets	Total DM mill.	Total (EUR mill.)
Scheduled depreciation and amortization	359	720	–	1,079	(552)
Unscheduled depreciation and amortization	13	49	9	71	(36)
	372	**769**	**9**	**1,150**	**(588)**

Cash Flow Statement

	Notes	1997 DM mill.	1998 DM mill.	1998 (EUR mill.)
Operating profit (EBIT)		**1,373**	**1,547**	**(791)**
Income taxes paid		– 403	– 505	(– 259)
Depreciation of fixed assets (excl. financial assets)	[1, 2, 3]	1,177	1,141	(584)
Net gains from disposals of fixed assets (excl. financial assets)		– 112	– 100	(– 51)
Cash flow		**2,035**	**2,083**	**(1,065)**
Change in inventories		– 197	– 95	(– 49)
Change in receivables and miscellaneous assets		– 324	– 90	(– 46)
Changes in liabilities and short-term provisions		266	– 240	(– 123)
Net cash flow from operating activities		**1,780**	**1,658**	**(847)**
Capital expenditure on intangible assets	[1]	– 76	– 133	(– 68)
Capital expenditure on tangible assets	[2]	– 910	– 966	(– 494)
Capital expenditure on financial assets	[3]	– 74	– 51	(– 26)
Acquisitions		– 2,578	– 733	(– 375)
Proceeds from sale of GFC shareholding	[33]	1,331	–	(–)
Proceeds from disposals of fixed assets		275	236	(121)
Net cash flow from investing activities		**– 2,032**	**– 1,647**	**(– 842)**
Henkel KGaA dividends		– 181	– 203	(– 104)
Subsidiary company dividends (to other shareholders)		– 33	– 40	(– 20)
Change in borrowings		814	469	(240)
Interest and dividends received		231	183	(94)
Interest paid		– 578	– 559	(– 286)
Other financing transactions		– 204	66	(34)
Net cash flow from financing activities		**49**	**– 84**	**(– 42)**
Change in cash and cash equivalents		**– 203**	**– 73**	**(– 37)**
Effect of exchange rate changes on cash and cash equivalents		13	– 16	(– 8)
Change in liquid funds and marketable securities		**– 190**	**– 89**	**(– 45)**

Additional information on the cash flow statement is given in Note 42 to the financial statements.

(figures in DM millions unless stated otherwise)

General information

The consolidated financial statements of Henkel KGaA have been drawn up in conformity with the standards issued by the International Accounting Standards Committee (IASC), London, subject always to the requirements of German company law.

All International Accounting Standards in force for 1998 have been taken into account as well as those due to become operative for 1999, unless indicated otherwise as exceptions in the Notes.

The financial statements of companies included in the consolidation have nearly all been audited and attested by members of the KPMG organization. With the exception of the companies in the Henkel-Ecolab joint venture (whose fiscal year ends on November 30), the annual financial statements of companies included in the consolidated financial statements are drawn up at the same accounting date as the financial statements of Henkel KGaA.

In order to improve the clarity and informative value of the financial statements, certain items have been combined in the balance sheet and statement of income and shown separately in the Notes. The cost of sales method is used for presentation of the statement of income. Restructuring charges and amortization of goodwill are shown separately because they are material.

Companies included in the consolidation

Apart from Henkel KGaA and its branch operation in Genthin, the consolidated financial statements include 44 domestic and 295 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.

101 subsidiary companies have not been included in the consolidation because, individually or in total, they are not material for a true and fair view of the net worth, financial position and results of the Group. The companies in question are mainly either companies which are not actively trading or companies which trade in the name and for the account of Group companies which are included.

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.

Four domestic and 28 foreign companies have been included in the consolidated Group figures for the first time. The most important of these are:

Name	Group shareholding %	Acquisition cost	Sales	Number of employees	Business sector
Manco Inc., USA	100	111 USD mill.	167 USD mill.	349	Adhesives
DEP Corp., USA	100	93 USD mill.	25 USD mill.*	297	Cosmetics
ISS Darenas Ltd.,UK	50.0	13 GBP mill.	61 DM mill.	155	Hygiene
Henkel Detergent Saudi Arabia Ltd., Saudi Arabia	50.0	34 DM mill.	20 DM mill.*	346	Detergents
Rilken S.A., Greece	50.1	22 DM mill.	50 DM mill.	306	Cosmetics

* 4 months

The effect of all the changes and acquisitions in the Group on major balance sheet items is as follows:

	DM mill.	(EUR mill.)
Fixed assets	313	(160)
Current assets	332	(170)
Liabilities	474	(242)

The effect of the acquisitions on net earnings was a reduction of DM 29 million. The participations in The Clorox Company, Oakland, California, and Ecolab Inc., St. Paul, Minnesota (both in the USA), are valued by the equity method because they are so important. The proportionate method of consolidation is not used.

Consolidation principles

Investments in subsidiaries are consolidated by setting off the book values of the investments in Group companies against the corresponding proportionate part of the net assets shown in their balance sheets at the date of acquisition (the “book value” method). Any differences remaining after apportioning hidden reserves and charges are shown as goodwill.

The same procedure is adopted for the participations valued by the equity method, any existing goodwill being included in the equity valuations of the companies concerned. The appropriate proportion of these companies' earnings, after amortization of goodwill, is included in net income from participations in the consolidated statement of income.

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 foreign currency financial statements of companies included in the consolidation are translated into DM in accordance with the "functional currency" concept expounded in IAS 21. The balance sheets of the companies included are translated at year-end closing rates and their income statements at average rates for the year, because these companies organize, operate and finance their activities independently. The differences arising from translating earnings at average rates and equity items at year-end closing rates are shown – in the same way as exchange differences compared with the previous year – under a separate equity heading "Currency translation difference" at the amounts accumulated up to the balance sheet date. At 1997 exchange rates, net earnings for 1998 would have been DM 16 million higher.

Foreign currency accounts receivable and payable in the Group are hedged by forward exchange contracts on the basis of risk considerations. In the financial statements of the individual companies included in the consolidation they are translated at the exchange rates in force at the date of the original transactions or at the forward rates specified in the relevant contracts. Amounts not hedged in this way are checked against the closing rate at the balance sheet date. If the closing rates produce lower amounts in the case of receivables or higher amounts in the case of liabilities, the differences are recognized as an expense unless amounts receivable and payable in a particular currency balance each other out. Exchange losses on intra-Group debt relationships which are reflected in the individual financial statements of companies included in the consolidation are reversed in the consolidated financial statements, but realized as an expense when the debt relationships are reduced or redeemed. Unrealized exchange gains are eliminated in compliance with the German Commercial Code and not retained, as stipulated in IAS 21 (The Effects of Changes in Foreign Exchange Rates).

In order to eliminate the effects of inflation more efficiently, the financial statements of our Turkish and Russian companies are drawn up in DM and those of our Argentinian, Brazilian and Mexican companies in US dollars.

Our participations in The Clorox Company and Ecolab Inc. are managed by the parent company Henkel KGaA. These participations are accounted for by the equity method and have been translated at closing rates of exchange in accordance with the "functional currency" concept for the first time in the year under review, reducing the shareholders' equity by DM 51 million. The market value of these participations at December 31, 1998, was DM 7,921 million.

Table of monetary units: Europe

Average exchange rates Jan. 1 – Dec. 31, 1998		Closing rates Dec. 31, 1998	
100 BEF	= 4.85 DM	100 BEF	= 4.8483 DM
1 GBP	= 2.93 DM	1 GBP	= 2.7980 DM
100 FRF	= 29.83 DM	100 FRF	= 29.8180 DM
100 NLG	= 88.71 DM	100 NLG	= 88.7530 DM
1000 ITL	= 1.01 DM	1000 ITL	= 1.0100 DM
100 ATS	= 14.21 DM	100 ATS	= 14.2140 DM
100 CHF	= 121.43 DM	100 CHF	= 122.2000 DM
100 ESP	= 1.18 DM	100 ESP	= 1.17550 DM
10000 TRL	= 0.069 DM	10000 TRL	= 0.053 DM

Overseas

Average exchange rates Jan. 1 – Dec. 31, 1998		Closing rates Dec. 31, 1998	
1 BRL	= 1.52 DM	1 BRL	= 1.3850 DM
100 JPY	= 1.35 DM	100 JPY	= 1.4505 DM
100 MXN	= 19.42 DM	100 MXN	= 16.9000 DM
1 USD	= 1.76 DM	1 USD	= 1.6730 DM

1 Euro = 1.95583 DM

Europe:
BEF Belgian franc, **GBP** British pound, **FRF** French franc, **NLG** Dutch guilder, **ITL** Italian lira, **ATS** Austrian schilling, **CHF** Swiss franc, **ESP** Spanish peseta, **TRL** Turkish lira.

Overseas:
BRL Brazilian real, **JPY** Japanese yen, **MXN** Mexican peso, **USD** US dollar

(figures in DM millions 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 are used as the basis for calculating depreciation for Group reporting purposes:

	Years
Goodwill	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 and distribution systems	7-10
Office equipment	10
Vehicles	5
Factory and research equipment	5

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

[1] Intangible assets

Only assets acquired for valuable consideration are included under this heading. Most of the additions to patents, licenses and similar rights came with the businesses acquired in 1998, such as Manco Inc., USA, DEP Corp., USA, Fel-Pro Chemical Products L.P., USA.

The increase in purchased goodwill relates to companies included in the consolidation for the first time in 1998 – mainly Henkel SPIC India Ltd., India, Rilken S.A., Greece, Schwarzkopf & DEP Corp., USA, Manco Inc., USA, and Henkel Detergent Saudi Arabia Ltd., Saudi Arabia.

Cost

	Patents/licenses	Goodwill	Total DM mill.	Total (EUR mill.)
At January 1, 1998	**799**	**4,141**	**4,940**	**(2,526)**
Changes in the Group/acquisitions	16	518	534	(273)
Additions	133	40	173	(88)
Disposals	– 73	– 88	– 161	(– 82)
Reclassifications	–	–	–	(–)
Translation differences	– 6	– 152	– 158	(– 81)
At December 31, 1998	**869**	**4,459**	**5,328**	**(2,724)**

Accumulated amortization

	Patents/licenses	Goodwill	Total DM mill.	Total (EUR mill.)
At January 1, 1998	**462**	**489**	**951**	**(486)**
Changes in the Group/acquisitions	5	40	45	(23)
Amortization 1998	114	258	372	(191)
Disposals	– 68	– 22	– 90	(– 46)
Reclassifications	1	–	1	(–)
Translation differences	– 5	– 26	– 31	(– 16)
At December 31, 1998	**509**	**739**	**1,248**	**(638)**
Book values (net) at December 31, 1998	**360**	**3,720**	**4,080**	**(2,086)**

[2] Tangible assets

The tangible asset values 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 DM mill.	Total (EUR mill.)
At January 1, 1998	**3,430**	**6,383**	**1,773**	**371**	**11,957**	**(6,114)**
Changes in the						
Group/acquisitions	99	102	52	6	259	(132)
Additions	114	352	255	245	966	(494)
Disposals	– 161	– 187	– 178	– 14	– 540	(– 276)
Reclassifications	62	140	29	– 216	15	(7)
Translation differences	– 70	– 153	– 41	– 6	– 270	(– 138)
At December 31, 1998	**3,474**	**6,637**	**1,890**	**386**	**12,387**	**(6,333)**

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 DM mill.	Total (EUR mill.)
At January 1, 1998	**1,487**	**4,353**	**1,256**	**2**	**7,098**	**(3,629)**
Changes in the						
Group/acquisitions	21	61	34	–	116	(60)
Depreciation 1998	115	416	231	7	769	(393)
Disposals	– 102	– 173	– 156	– 2	– 433	(– 222)
Reclassifications	1	– 9	8	– 1	– 1	(–)
Translation differences	– 19	– 93	– 23	– 1	– 136	(– 70)
At December 31, 1998	**1,503**	**4,555**	**1,350**	**5**	**7,413**	**(3,790)**
Book values (net)						
at December 31, 1998	**1,971**	**2,082**	**540**	**381**	**4,974**	**(2,543)**

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. Grants for past expenditure are taken to income in the year when they are received. Depreciation is charged over the periods of estimated useful life shown in the table on page 55. Assets of low value are written off in full in the year when they are acquired.

Assets held by the Group under the terms of finance leases are included in tangible assets at a total value of DM 67 million. They are included at the present value of the lease payments in accordance with IAS 17 (Accounting for Leases) and depreciated on a scheduled basis. The commitments for future payments are shown as liabilities.

[3] Financial assets

Shares held are shown at cost or at their lower actual value. Participations in the associated companies The Clorox Company and Ecolab Inc. are included in the consolidated financial statements at the appropriate proportion of their equity.

The values of financial assets have changed as follows:

Cost

	Affiliated companies	Shares in associated companies	Other investments	Total DM mill.	Total (EUR mill.)
At January 1, 1998	**69**	**918**	**67**	**1,054**	**(539)**
Changes in the Group/acquisitions	– 21	–	– 37	– 58	(– 30)
Additions	42	114	10	166	(85)
Disposals	–	–	– 8	– 8	(– 4)
Reclassifications	–	– 2	+ 2	–	(–)
Translation differences	–	– 90	–	– 90	(– 46)
At December 31, 1998	**90**	**940**	**34**	**1,064**	**(544)**

Accumulated write-downs

	Affiliated companies	Shares in associated companies	Other investments	Total DM mill.	Total (EUR mill.)
At January 1, 1998	**8**	**–**	**36**	**44**	**(22)**
Changes in the Group/acquisitions	–	–	– 36	– 36	(– 18)
Write-downs 1998	9	–	–	9	(5)
Disposals	–	–	–	–	(–)
Reclassifications	–	–	–	–	(–)
Translation differences	–	–	–	–	(–)
At December 31, 1998	**17**	**–**	**0**	**17**	**(9)**
Book values (net) at December 31, 1998	**73**	**940**	**34**	**1,047**	**(535)**

[4] Deferred tax assets

This heading comprises deferred tax assets taken over from the individual company balance sheets resulting from timing differences between the balance sheet valuation of an asset or liability and its tax base, from tax losses carried forward which are expected to be reversed, and from consolidation procedures.

[5] Inventories

	Dec. 31, 1997 DM mill.	**Dec. 31, 1998 DM mill.**	Dec. 31, 1998 (EUR mill.)
Raw materials and supplies	853	846	(432)
Work in process	325	316	(162)
Finished products and merchandise	1,452	1,610	(824)
Payments on account of merchandise	20	16	(8)
	2,650	**2,788**	**(1,426)**

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 accordingly. Manufacturing cost includes, in addition to direct costs, appropriate proportions of overheads attributable to the production process, and depreciation charges. Interest charges incurred during the period of manufacture are not included. Inventories included in the balance sheet at their lower net realizable value at December 31, 1998, totaled DM 119 million.

[6] Trade accounts receivable

	Dec. 31, 1997 DM mill.	**Dec. 31, 1998 DM mill.**	Dec. 31, 1998 (EUR mill.)
Trade accounts receivable	3,409	**3,490**	(1,784)

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 accounts which are 90 days overdue and full provision is made for accounts which are 180 days overdue. A total of DM 92 million has been provided in the form of valuation allowances.

[7] Other receivables and miscellaneous assets

	Dec. 31, 1997 DM mill.	**Dec. 31, 1998 DM mill.**	Dec. 31, 1998 (EUR mill.)
Accounts receivable from affiliated companies	18	20	(10)
(including those with a residual term of more than 1 year)	(–)	(–)	(–)
Accounts receivable from other companies in which participations are held	12	14	(7)
(including those with a residual term of more than 1 year)	(3)	(–)	(–)
Miscellaneous assets	613	704	(360)
(including those with a residual term of more than 1 year)	(142)	(132)	(67)
Deferred charges	76	78	(40)
	719	**816**	**(417)**

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 claims for tax refunds (DM 114 million), amounts receivable from employees (DM 53 million) and suppliers (DM 67 million), insurance claims (DM 18 million), security and guarantee deposits (DM 24 million), and payments made on account (DM 26 million).

The debt discount (DM 2 million) included in deferred charges is written off on a scheduled basis each year over the term of the underlying liability.

[8] Liquid funds and marketable securities

	Dec. 31, 1997 DM mill.	**Dec. 31, 1998 DM mill.**	Dec. 31, 1998 (EUR mill.)
Liquid funds	302	226	(116)
Marketable securities	35	22	(11)
	337	**248**	**(127)**

The marketable securities are valued at cost, which is not in accordance with IAS 25 (Accounting for Investments).

Shareholders' equity

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

[9] The subscribed capital

totals DM 729.9 million. At the Annual General Meeting held on June 3, 1996, the personally liable partners were authorized – subject to the approval of the Supervisory Board and the Shareholders' Committee – to increase the capital of the Company once only or in several instalments at any time up to June 3, 2001, by up to a total of DM 50 million by issuing new non-voting preferred shares for cash.

A resolution of shareholders adopted at the Annual General Meeting held on April 28, 1997, approved a conditional increase of DM 10 million 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 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.

	Dec. 31, 1997 DM mill.	**Dec. 31, 1998 DM mill.**	Dec. 31, 1998 (EUR mill.)
Ordinary bearer shares	433	433	(221)
Non-voting preferred bearer shares	297	297	(152)
Capital stock	730	**730**	**(373)**
Divided into:			
86,598,625 ordinary shares			
59,387,625 preferred shares			

[10] The capital reserve

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

[11] Revenue reserves

amount to DM 3,513 million. They include:

– amounts allocated in the financial statements of Henkel KGaA in previous years;

– amounts allocated from consolidated net earnings of the Group;

– the results of consolidated companies less the interests of minority shareholders therein;

– changes in consolidation items and in the composition of the Group which affect earnings.

In addition, the effects of the change in mortality statistics and of the sharp fall in mortality rates on the pension provisions accrued by the German companies have been taken direct (net of deferred tax assets) to revenue reserves in the year under review. The actuarial computations are now based on the 1998 mortality tables of Prof. Dr. Klaus Heubeck instead of the 1983 tables.

[12] The differences on translation

of the annual financial statements of foreign companies are shown under a separate heading as part of the shareholders' equity.

The shareholders' equity is made up as follows:

Shareholders' equity excluding minority interests

	Ordinary shares	Preferred shares	Capital reserve	Revenue reserves	Unappropriated profit	Translation differences	Total DM mill.	Total (EUR mill.)
At January 1, 1998	**433**	**297**	**1,276**	**3,244**	**203**	**– 377**	**5,076**	**(2,595)**
Earnings after minority interests					657		657	(336)
Allocation to reserves				425	– 425		–	(–)
Adjustment against reserves				– 156			– 156	(– 80)
Exchange rate differences						– 347	– 347	(– 177)
Distributions					– 203		– 203	(– 104)
At December 31, 1998	**433**	**297**	**1,276**	**3,513**	**232**	**– 724**	**5,027**	**(2,570)**

[13] Minority interests

Minority interests comprise for the most part Ecolab Inc.'s share in the Henkel-Ecolab companies as well as partners' shares in a number of mainly foreign companies included in the consolidation, primarily in Asia.

[14/15] Provisions for pensions and similar obligations / Other provisions

	Balance Jan. 1, 1998 DM mill.	Special circum-stances*)	Utilized	Released	Allocated	**Balance Dec. 31, 1998 DM mill.**	Balance Dec. 31, 1998 (EUR mill.)
Provisions for pensions and similar obligations	3,260	184	166	43	233	**3,468**	**(1,773)**
Tax provisions	635	– 2	401	27	352	**557**	**(285)**
Sundry provisions	1,382	– 17	1,098	74	1,151	**1,344**	**(687)**

*) Changes in the Group / exchange rate differences/ adjustment against reserves to reflect changed mortality statistics (DM 200 million)

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 pensions and similar obligations have been calculated using 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 (1997: 3.0 percent) for wages and salaries, 1.5 percent (1997: 2.0 percent) for retirement benefits, and a discount rate of 6.0 percent (1997: 6.5 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:

	Germany	USA	Rest of world	**Total DM mill.**	Total (EUR mill.)
Present value of obligations not covered by fund assets	2,906	129	194	3,229	(1,651)
Present value of obligations covered by fund assets	143	554	150	847	(433)
	3,049	683	344	**4,076**	**(2,084)**
Market value of fund assets	– 96	– 463	– 134	– 693	(– 354)
Miscellaneous	–	–	6	6	(3)
	2,953	220	216	**3,389**	**(1,733)**
Unrecognized actuarial gains/losses	– 44	123	–	79	(40)
Provisions for pensions and similar obligations	2,909	343	216	**3,468**	**(1,773)**

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).

DM 68 million of the amount allocated to provisions for pensions and similar obligations is included in pension costs (Note 38 below) and DM 165 million in financial items (Note 32). The amount of DM 200 million adjusted against reserves includes DM 193 million to reflect changed mortality statistics and the sharp fall in mortality rates in Germany.

The tax provisions comprise accrued tax liabilities and amounts which could be payable as a result of external tax audits and appeal proceedings.

The sundry provisions at December 31, 1998, include DM 329 million (1997: DM 311 million) for marketing, selling and distribution activities, DM 389 million (1997: DM 433 million) for personnel matters, DM 175 million (1997: DM 216 million) on the production and technology side and DM 451 million (1997: DM 422 million) for administrative expenses. The sundry provisions are in respect of identifiable potential liabilities towards third parties.

[16] Provisions for deferred tax liabilities

No deferred tax balances have been recognized in the balance sheet in respect of reserves of Henkel KGaA which have not been taxed or which have been taxed at rates in excess of those applicable to distributed profits. The reserves in question are not expected to be distributed.

[17] Borrowings

This heading includes all interest-bearing obligations of the Henkel Group outstanding at December 31, 1998, including the participating certificates of Henkel KGaA and participating loans on which payments are linked to the dividends payable to preferred shareholders.

The main components under this heading are as follows:

	Dec. 31, 1997 Total DM mill.	Residual term more than 5 years	up to 1 year	**Dec. 31, 1998 Total DM mill.**	Dec. 31, 1998 Total (EUR mill.)
Bonds	1,694	437	1,326	2,019	(1,032)
Participating certificates	59	–	11	48	(24)
Participating loans	130	130	–	130	(67)
Loans from employee welfare funds of the Henkel Group	79	1	23	62	(32)
(including amounts secured)	(3)	–	–	(1)	(–)
Bank loans and overdrafts	1,126	16	958	1,107	(566)
(including amounts secured)	(41)	–	–	(55)	(28)
Other financial liabilities	677	29	818	864	(442)
	3,765	613	3,136	**4,230**	**(2,163)**

Bonds represent the largest single item of borrowings. The following are the most important bonds included:

Issued by	Type	Denominated currency	Equivalent value in DM millions	Interest rate	Interest rate fixed
Henkel KGaA	Bond	CHF	248	3.500 %	until 2001 [1]
Henkel Corporation	Convertible bond	DEM	150	2.000 %	until 2003 [1]
Henkel Corporation	Eurobonds	DEM	300	5.375 %	until 2004 [1]
Henkel Corporation	Commercial paper program	USD	534	5.720 %	1-3 months [2]
Henkel KGaA	Commercial paper program	DEM	556	3.301 %	1-3 months [2]

[1] secured by cross currency swap [2] secured by a range of interest rate swaps

The convertible bond for DM 150 million issued by Henkel Corporation includes a call option. During the period from June 12, 2000 to May 23, 2003 inclusive 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. Instead of exchanging the individual bonds for shares they can also be redeemed in cash (German Marks).

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

The bonds include a convertible warrant bond for a total of DM 6 million issued on December 8, 1997, and a similar bond for a total of DM 2 million issued on July 1, 1998, in connection with the introduction of a Stock Incentive Plan 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 beneficiaries have the right to acquire new preferred shares of Henkel KGaA. The subscription prices depend on the 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 the capital affecting the quoted price of Henkel's preferred shares are taken into account in calculating performance.

An interim calculation comparing the average figures for the second half of 1998 with those of the second half of 1996 and the second half of 1997 shows that Henkel's preferred shares outperformed the DAX index by 31.9 percent and 18.7 percent respectively (interim result). 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 or in the balance sheet of Henkel KGaA at December 31, 1998, because there were no legal obligations outstanding.

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

Each convertible warrant bond with a nominal value of DM 100 has 20 option warrants attached. The option attached to the bonds issued in December 1997 cannot be exercised until the first stock exchange trading day following the Annual General Meeting of

Henkel KGaA in the year 2000. The option attached to the bonds issued in July 1998 cannot be exercised until the first stock exchange trading day following the Annual General Meeting of Henkel KGaA in the year 2001.

Members of the Management Board were entitled to 230,130 (1997: 185,910) option warrants at the balance sheet date. The total number of warrants held by all those entitled was 1,323,923.

[18] Trade accounts payable

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

[19] Other liabilities

	Dec. 31, 1997 Total DM mill.	Residual term more than 5 years	Residual term up to 1 year	**Dec. 31, 1998 Total DM mill.**	Dec. 31, 1998 Total (EUR mill.)
Accounts payable to affiliated companies	37		36	36	(18)
Accounts payable to other companies in which participations are held	12		18	18	(9)
Liabilities in respect of taxation	163		173	173	(89)
Liabilities in respect of social security	66		73	73	(37)
Sundry liabilities including deferred income	530	26	385	538	(275)
(including amounts secured)	(2)			(–)	(–)
	808	26	685	**838**	**(428)**

Sundry liabilities include liabilities to customers (DM 50 million), commission payable (DM 22 million), payroll taxes etc. for employees (DM 57 million), liabilities towards employees (DM 96 million) and advance payments received (DM 11 million).

[20] Contingent liabilities

	Dec. 31, 1997 DM mill.	**Dec. 31, 1998 DM mill.**	Dec. 31, 1998 (EUR mill.)
Bills and notes discounted	48	35	(18)
Liabilities under guarantees and warranty agreements	29	11	(6)
Collateral	6	5	(3)

[21] Other financial commitments

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 tangible fixed assets and potential liabilities in respect of payments on shares not yet called up they amounted to DM 676 million in the Group at the end of 1998.

There were no payment commitments outstanding under the terms of agreements for capital increases and share purchases signed prior to December 31, 1998.

[22] Financial derivatives

DM mill. at December 31	Notional principal amounts 1997	1998	Market values 1997	1998
Forward exchange contracts	3,031	3,311	– 7	10
(proportion for hedging financing arrangements within the Group)	(2,804)	(2,959)	(– 7)	(7)
Currency options	20	101	0	0
Cross currency swaps	698	698	– 19	33
Interest rate hedging instruments	1,564	1,420	– 29	– 60
	5,313	**5,530**	– 55	**– 17**

The information under this heading is based on IAS 32 (Financial Instruments: Disclosure and Presentation).

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 for hedging purposes. Instruments quoted in financial markets and those traded elsewhere are both used, provided they 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 DM 17 million 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 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. 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 resulted in cost savings compared with alternative forms of finance at the time when the transaction was concluded. The market values of the interest rate hedging contracts are negative because of the worldwide fall in interest rates.

All the relevant activities are centrally co-ordinated by Henkel KGaA's 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:

	Notional principal amount in DM mill.	Average remaining period to maturity in years	Average interest rate %
DEM	541	2.1	5.7
FRF	90	4.8	6.0
USD	1,487	3.9	6.3

(figures in DM millions unless stated otherwise)

[23] Sales

A breakdown of sales by product division and geographical region compared with the previous year is shown in the table on page 50.

For competitive reasons – contrary to the requirements of IAS 14 (Reporting Financial Information by Segment) – we have combined the Cosmetics/Toiletries and Detergents/Household Cleansers product divisions under “Brand-name products”.

[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) in conformity with IAS 2 (Inventories).

[25] Marketing, selling and distribution costs

These include the costs of the marketing organization, of distribution, advertising and market research, and of customer-specific technical advisory services, 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 and development costs are expensed in full in the year when they are incurred. Development costs incurred by our product divisions cannot be carried forward because the risks involved in the time to market mean that not all the criteria set out in IAS 9 (Research and Development Costs) can be met.

[27] Administrative expenses

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

[28] Other operating income

	1997 DM mill.	**1998 DM mill.**	1998 (EUR mill.)
Gains on disposal of fixed assets	111	100	(51)
Income from release of provisions	29	74	(38)
Income from release of bad debt reserves	8	6	(3)
Other operating revenue	12	114	(58)
	160	**294**	**(150)**

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

The increase in 1998 is attributable in particular to a higher level of insurance claims, increased gains from the sale of trademark rights, and divestments.

[29] Other operating charges

Sundry operating expenses include amounts provided for services to be rendered to customers under guarantee and for the sake of customer goodwill, leasehold payments, and foreign exchange losses incurred in connection with operating activities.

[30] Amortization of goodwill

The increase in the amortization charge on goodwill is almost entirely due to the acquisitions of Manco Inc., USA, DEP Corp., USA, Rilken S.A., Greece, Henkel SPIC India Ltd., India, and Henkel Detergent Saudi Arabia Ltd., Saudi Arabia.

[31] Restructuring charges

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

[32] Financial items

Net income from participations

	1997 DM mill.	**1998 DM mill.**	1998 (EUR mill.)
Net income from associated companies	188	**224**	**(115)**

Net income from other participations

	1997 DM mill.	**1998 DM mill.**	1998 (EUR mill.)
Income from participations			
in affiliated companies	1	13	(6)
in other companies	3	6	(3)
Income from profit and loss transfer agreements	1	1	(1)
Gains on disposal of financial assets and marketable securities	2	–	(–)
Write-downs on financial assets and marketable securities	– 28	– 9	(– 5)
	– 21	**11**	**(5)**

Net interest expense

	1997 DM mill.	**1998 DM mill.**	1998 (EUR mill.)
Interest and similar income			
from affiliated companies	–		
from others	74	36	(19)
Other financial income	49	32	(16)
Interest charges payable			
to affiliated companies	– 8	– 17	(– 9)
to others	– 366	– 352	(– 180)
Other financial charges	– 131	– 57	(– 29)
Interest element of amounts allocated to pension provisions	– 170	– 165	(– 84)
	– 552	**– 523**	**(– 267)**
Financial items (net)	– 385	**– 288**	**(– 147)**

[33] Gain from sale of GFC shareholding (Degussa)

In a notarially registered deed dated May 20, 1997, the existing shareholders of GFC sold their holdings to VEBA AG, Düsseldorf and Berlin. Henkel KGaA's share of the proceeds from the sale was DM 1,331 million, giving a net profit of DM 501 million on the sale after setting off the book value of the investment valued at equity (DM 362 million) and an estimated tax charge of DM 468 million.

[34] Taxes on income

This heading does not include any operating taxes because they are charged in the operating result.

The estimated average tax rate of 41 percent is the same as in the previous year.

	1997	**1998**	1998
	DM mill.	**DM mill.**	(EUR mill.)
Estimated tax charge at an average tax rate of 41 %	802	516	(264)
Tax reductions owing to tax-free income and other items	– 77	– 175	(– 90)
Tax increases owing to non-deductible expenses and other items	105	191	(98)
Total tax charge	830	**532**	**(272)**
comprising: current taxes	731	473	(242)
comprising: deferred taxes	99	59	(30)
Effective tax rate %	42.4	42.3	
Effective tax rate % (excluding GFC in 1997)	36.6	**42.3**	

[35] Minority interests

The amount shown here represents the share of profits and losses attributable to other shareholders. The share of profits amounted to DM 96 million (1997: DM 84 million) and of losses DM 26 million (1997: DM 19 million).

[36] Depreciation and amortization expense

	1997	**1998**	1998
	DM mill.	**DM mill.**	(EUR mill.)
Scheduled depreciation and amortization on tangible and intangible assets	1,050	1,079	(552)
Unscheduled depreciation and amortization on tangible and intangible assets	127	62	(32)
Write-downs on financial assets	26	9	(4)
	1,203	**1,150**	**(588)**

The increase in scheduled depreciation compared with the comparable figure for the previous year is mainly due to the acquisitions made in 1998.

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.

[37] Cost of materials

	1997	**1998**	1998
	DM mill.	**DM mill.**	(EUR mill.)
Cost of raw materials and supplies and of goods purchased for resale	8,068	8,535	(4,364)
Cost of outside services	406	530	(271)
	8,474	**9,065**	**(4,635)**

[38] Payroll costs

	1997	1998	1998
	DM mill.	**DM mill.**	(EUR mill.)
Wages and salaries	3,236	3,416	(1,747)
Social security contributions and social assistance	655	724	(370)
Pension costs	225	159	(81)
	4,116	**4,299**	**(2,198)**

[39] Employee numbers

Annual average excluding apprentices, work experience students and trainees.

	1997	1998
Production and technology	25,436	25,506
Marketing, sales and distribution	15,842	17,403
Research, development and applications technology	3,595	3,658
Administration	8,880	9,724
	53,753	**56,291**

[40] Value added

	1997 *		1998	1998	
	DM mill.	%	**DM mill.**	(EUR mill.)	%
Net sales/Other income	21,512	100.0	21,941	(11,218)	100.0
Cost of materials	8,474	39.4	9,065	(4,635)	41.3
Fixed asset depreciation	1,203	5.6	1,150	(588)	5.2
Other expenses	4,991	23.2	5,497	(2,810)	25.1
Value added	6,844	31.8	6,229	(3,185)	28.4
Shared between:					
Employees	4,116	60.1	4,299	(2,198)	69.0
Government	926	13.5	622	(318)	10.0
Providers of capital	675	9.9	581	(297)	9.3
Shareholders	203	3.0	232	(119)	3.8
Minority interests	65	0.9	70	(36)	1.1
Retained in the business	859	12.6	425	(217)	6.8

* including sale of GFC shareholding (Degussa)

[41] Information on earnings per share in conformity with International Accounting Standard IAS 33 (EPS)

	1997	1998	1998
	DM mill.	**DM mill.**	(EUR mill.)
Earnings after minority interests	1,062	657	(336)
Dividend proposed or paid			
– to ordinary shareholders	117	134	(69)
– to preferred shareholders	86	98	(50)
Profit retained	859	**425**	**(217)**
Number of ordinary shares	86,598,625	86,598,625	
Basic EPS (incl. GFC shareholding) in DM	7.25	–	
EPS (excl. GFC shareholding) in DM (Euro)	3.80	**4.46**	**(2.28)**
Number of preferred shares	59,387,625	59,387,625	
Basic EPS (incl. GFC shareholding) in DM	7.35	–	
EPS (excl. GFC shareholding) in DM (Euro)	3.90	**4.56**	**(2.33)**

The stock option program (see Note 17) has the potential effect of diluting earnings per share (preferred or ordinary) by one pfennig.

[42] Supplementary information on the cash flow statement

The figure for acquisitions includes the purchase prices paid (DM 559 million) plus borrowings taken over (DM 182 million) less cash and cash equivalents taken over (DM 8 million).

The change in borrowings refers to the commercial paper program and the assumption of long-term debt.

[43] Related party transactions

Transactions between descendants of the Company's founder and the Company itself are carried out at arm's length on normal market conditions and regularly reviewed by the auditors (most recently in 1997).

[44] Emoluments of corporate management

The total emoluments paid to members of the Supervisory Board for the 1998 fiscal year (including value added tax taken over and back-payments) amounted to TDM 1,019 (1997: TDM 700), those paid to members of the Shareholders' Committee TDM 1,920 (1997: TDM 1,800). The personally liable partners and other members of the Management Board received remuneration totaling TDM 14,841 for the year under review (1997: TDM 13,861).

Members of the Management Board have been granted 44,220 option warrants under the terms of the Stock Incentive Plan (see Note 17) in 1998. These warrants represent an estimated value of TDM 704 at the balance sheet date which, given the terms of the warrant bond, has not been included in the above figure of total emoluments.

TDM 66,281 (1997: TDM 58,918) 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 TDM 6,079 (1997: TDM 6,099).

Amounts totaling TDM 210 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 1998 shown under the heading "Miscellaneous assets" amounted to TDM 430, including TDM 100 advanced to personally liable partners. The loans, which for the most part are secured by mortgages, are for terms of up to 8.5 years and are subject to interest at the Bundesbank's discount rate up to a maximum of 5.5 percent.

[45] Recommendation for appropriation of the profit of Henkel KGaA

The personally liable partners, the Shareholders' Committee and the Supervisory Board recommend that the unappropriated profit of TDM 232,217 for the year ended December 31, 1998, be applied as follows:

1. Payment of a dividend of DM 1.55
   per ordinary share
   (on capital of TDM 432,993
   ranking for dividend)
   = TDM 134,228.
2. Payment of a dividend of DM 1.65
   per preferred share
   (on capital of TDM 296,938
   ranking for dividend)
   = TDM 97,989.

Düsseldorf, February 26, 1999

The Personally Liable Partners
of Henkel KGaA

Dr. Hans-Dietrich Winkhaus
Dr. Klaus Morwind
Dr. Roland Schulz
Prof. Dr. Uwe Specht

The Shareholders' Committee

Albrecht Woeste
Chairman

Europe 1998

	Share of capital %	Sales DM mill.	Earnings before tax DM mill.	Earnings before tax (EUR mill.)	Employees Dec. 31
Henkel-Ecolab Joint Venture-Companies	50 % + 1 vote	1,605	118	(60)	4,523
Hans Schwarzkopf GmbH & Co. KG, Hamburg/Germany	100	445	58	(30)	1,099
Grünau Illertissen GmbH, Illertissen/Germany	100	295	14	(7)	570
Henkel Benelux Group, Brussels/Belgium and Nieuwegein/Netherlands	100	694	207	(106)	973
Henkel France Group, Boulogne-Billancourt/France	100	1,314	81	(41)	1,739
Sidobre-Sinnova S.A., Boussens-Saint Martory/France	100	346	13	(7)	404
Henkel Ltd., London/Great Britain	100	357	19	(10)	937
Henkel S. p. A., Ferentino/Italy	100	1,267	47	(24)	1,598
Henkel Central Eastern Europe Group, Vienna/Austria	100	1,251	80	(41)	3,918
Henkel Nordic Group, Stockholm/Sweden	100	215	–	(–)	379
Henkel Pratteln Group, Pratteln/Switzerland	100	193	8	(4)	205
Henkel Ibérica Group, Barcelona/Spain	80	1,155	63	(32)	1,958
Henkel Turyag A.S., Izmir/Turkey	100	238	– 10	(– 5)	417
Türk Henkel A.S., Istanbul/Turkey	100	265	17	(9)	480

Overseas 1998

	Share of capital %	Sales DM mill.	Earnings before tax DM mill.	Earnings before tax (EUR mill.)	Employees Dec. 31
Henkel S.A. Indústrias Químicas, São Paulo/Brazil	100	301	4	(2)	1,023
Henkel Mexicana S. A. de C. V., Ecátepec de Morelos and Mexico D.F./Mexico	100	143	9	(5)	606
Henkel South Africa (Pty) Ltd., Alrode/South Africa	50	119	5	(3)	528
Henkel of America Inc., Gulph Mills, Pennsylvania/USA	100	2,745	135	(69)	3,522
Henkel Asia-Pacific Group/Hong Kong	100	1,198	– 34	(– 17)	7,299
Loctite Group, Hartford, Connecticut/USA	100	1,484	42*	(21)	4,518

* after charging acquisition financing costs

Major Participations in Associated Companies

The Clorox Company, Oakland, California, USA

Product groups: bleaching agents, household products, processed foods

Henkel owns 30.9 million shares in Clorox, representing a participating interest of 24.7 percent. Henkel and Clorox also have a technology transfer agreement. Our collaboration with Clorox extends to the exchange of formulations, marketing concepts and test methods. We also cooperate in some countries on the production and marketing of household bleaching agents. Clorox has a 20 percent shareholding in Henkel Ibérica S.A.

Fiscal 1997/98 was a very successful year for Clorox. Sales rose 8 percent to US$ 2,741 million. The international business activities of Clorox were expanded and now account for 17 percent of sales. Net earnings rose by 19 percent to US$ 298 million.

Clorox's share price climbed 47 percent in 1998. The market value of our participation as of December 31, 1998 amounted to US$ 3,604 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, and products for water treatment and pest control

Henkel owns 31.2 million shares in Ecolab Inc., representing a participating interest of 21.6 percent. The European joint venture Henkel-Ecolab together with Ecolab Inc. and its activities in the USA and other regions outside Europe make up a business of global proportions enjoying a leading market position.

Fiscal 1998 was another successful year for Ecolab Inc. Sales recorded 15 percent growth to US$ 1,888 million. Net earnings rose 44 percent to US$ 192 million.

The share price of Ecolab went up by 30 percent in 1998. The market value of our participation as of December 31, 1998 totaled US$ 1,131 million.

The personally liable partners 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, and with German company law regulations.

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 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 and that management is in a position to recognize changes in business circumstances and any 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 continued existence of Henkel KGaA as a going concern 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 on which those are based.

The management of our Group is attuned to the interests of shareholders in full awareness of our responsibility towards employees, society and the environment in every country in which we operate. Management is committed to delivering a steady increase in shareholder value.

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 and verify compliance with International Accounting Standards. 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 the meeting of the Supervisory Board held for that purpose. The report of the Supervisory Board is reproduced on page 73.

The Personally Liable Partners
of Henkel KGaA

Düsseldorf, February 26, 1999

We have audited the consolidated balance sheet of Henkel Kommanditgesellschaft auf Aktien (Henkel KGaA) as of December 31, 1998, and the related consolidated statements of income and cash flows for the year then ended. We have also audited the Group management report. These consolidated financial statements have been drawn up in accordance with International Accounting Standards (IAS), taking into consideration the provisions of German company law. The consolidated financial statements are the responsibility of the personally liable partners of Henkel KGaA. Our responsibility is to express an opinion, based on our audit, on these consolidated financial statements and on their compliance with International Accounting Standards (IAS) and German company law regulations.

We conducted our audit of the consolidated financial statements in accordance with § 317 of the German Commercial Code, having due regard for the generally accepted standards for the audit of financial statements published by the Institut der Wirtschaftsprüfer (IDW) and the International Standards on Auditing (ISA) published by the International Auditing Practices Committee of the International Federation of Accountants (IFAC). Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. 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 used and significant estimates made by the personally liable partners, as well as evaluating the overall presentation of the consolidated financial statements, including the information contained in the Group management report about the risk management systems in place in the Henkel Group. We believe that our audit provides a reasonable basis for our opinion.

Our audit revealed no grounds for objections.

In our opinion the consolidated financial statements give a true and fair view of the financial position of the Henkel Group as of December 31, 1998, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards (IAS). The Group management report gives an accurate picture of the situation of the Group overall and a fair assessment of the risks which could affect the future performance of Henkel KGaA.

Düsseldorf, February 26, 1999

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Ulrich Maas Wirtschaftsprüfer	Michael Gewehr Wirtschaftsprüfer

Report of the Supervisory Board

The Supervisory Board has fulfilled the responsibilities incumbent upon it by law and under the Company's statutes. Every three months the Management Board has submitted a comprehensive report to the Supervisory Board about the business affairs of the Company, including details about activities in the various business sectors and geographical regions. In this way every member of the Supervisory Board has been kept fully informed throughout the year. All members of the Supervisory Board received separate notification about the proposed acquisitions of the chemicals business of the Fel-Pro company in the United States, and of DEP Corp. (USA) and CFPI (France).

Furthermore, at the four meetings of the Supervisory Board held during the year, the Management Board has reported on strategies and measures being taken, answered questions raised by the Supervisory Board and listened to the opinions of members of the Supervisory Board. Particular attention was paid to the strategy and business development of the Henkel-Ecolab joint venture, the long-term development of the Henkel Group, Henkel's research activities, and the progress of the business sectors in North America, Latin America and Asia. Other important topics discussed included the implications of the German Law on Corporate Governance and Transparency (KonTraG) and Henkel's management of risk.

The annual financial statements of Henkel KGaA, the consolidated financial statements of the Group and the combined management report of Henkel KGaA and the Group, the recommendation for the appropriation of profit and the reports by the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, have been laid before all the members of the Supervisory Board.

The financial statements and the combined management report for the year ended December 31, 1998, have been given an unqualified opinion by the auditors. The Supervisory Board has noted and approved the results of the auditors' examination. The auditors attended the meeting of the Supervisory Board at which the financial statements were discussed and they delivered a report on the conduct of their audit.

The Supervisory Board has examined the annual financial statements, the management report, and the recommendation for the appropriation of profit, as well as the consolidated financial statements and the Group management report. After concluding its own examination the Board has found these to be in order. The Supervisory Board accordingly approves the annual financial statements and the recommendation by the personally liable partners for the appropriation of profit.

Düsseldorf, March 15, 1999

The Supervisory Board
Albrecht Woeste
(Chairman)

Corporate Management

Dr. Dr. h.c. Konrad Henkel Honorary Chairman of the Henkel Group

Supervisory Board

Albrecht Woeste
Chairman
Owner of R. Woeste Group

Winfried Zander
Vice Chairman
Chairman of the Works
Council of Henkel KGaA

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 Henkel KGaA

Dieter Jansen
Member of the Works
Council of Henkel KGaA

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

Hans Mehnert
Member of the Works
Council of Henkel KGaA

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

Heinrich Thorbecke
Private Banker

Michael Vassiliadis
Executive Secretary of the
trade union IG Bergbau,
Chemie, Energie

Bernhard Walter
Chairman
of Dresdner Bank AG

Jürgen Walter
Member of the Governing
Board of the trade union
IG Bergbau, Chemie,
Energie

Dr. Anneliese Wilsch-Irrgang
Chemist
Chairwoman of the
Management Personnel
Representatives
of Henkel KGaA

Shareholders' Committee

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Chairman
Owner of R. Woeste Group

Christoph Henkel
Vice Chairman
Business Executive

Dr. Jürgen Manchot
Vice Chairman
Chemist

Dr. h.c. Ulrich Hartmann
Chairman of the Board
of Management and CEO
of VEBA AG

Walter Huneke
Private Investor

Dr. h.c. Helmut O. Maucher
President of the Board
of Nestlé S.A.

Dr. Christa Plichta
Physician

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

Prof. Dr. Dr. Helmut Sihler
Former President and
Chief Executive Officer
of Henkel KGaA

Management Group

JV Henkel-Ecolab

Bruno Deschamps
CEO

Affiliated Companies

Ramon Bacardit
Mexico

Klaus Behrens
Mercosul

Ron Bennett
Great Britain

Eberhard Buse
Germany

Alfredo Gangotena
Henkel Asia Pacific

Denis Claude B. de Gersigny
South Africa

Thorsten Hagenau
Scandinavia

Dirk-Stephan Koedijk
Belgium/Netherlands

André Lesaicherre
France

Alois Linder
Spain

Robert Lurcott
USA

Dr. Jean-Pierre de Montalivet
France

Rolf Münch
Switzerland

Dr. Can Paker
Turkey

Gerhard Schlosser
Japan
(from March 1, 1998)

Dr. Heinz-Gerd Smolka
Germany

Dr. Friedrich Stara
Henkel Central Eastern Europe

Rainer Tschersig
Germany

Bruce Turnbull
Australia

Dr. Vincenzo Vitelli
Italy

Management Board of Henkel KGaA

President and Chief Executive Officer **Dr. Hans-Dietrich Winkhaus ***	Adhesives **Guido De Keersmaecker**	Surface Technologies / Information Systems **Dr. Jochen Krautter**
Finance / Logistics **Dr. Ulrich Lehner**	Detergents / Household Cleansers **Dr. Klaus Morwind ***	Personnel / Industrial and Institutional Hygiene **Dr. Roland Schulz ***
Cosmetics / Toiletries **Prof. Dr. Uwe Specht ***	Research / Technology **Dr. Wilfried Umbach** (until June 30,. 1998)	Chemical Products **Dr. Harald Wulff**

* *Personally Liable Partners*

Operating Management of Henkel KGaA

Law **Dr. Franz-Josef Acher** (from August 1, 1998) **Dr. Karl Grüter** (until June 30, 1998)	Consumer and Craftsmen Adhesives **Pierre Brusselmans**	Engineering / Plant Manager Düsseldorf-Holthausen **Gunter Effey** (from April 1, 1998)	Industrial Adhesives **Jean Fayolle** (from January 1, 1998)
Engineering Adhesives **David Freeman**	Research / Technology **Dr. Wolfgang Gawrisch** (from July 1, 1998)	Household Cleansers International **Wolfgang Haumann**	Organic Specialty Chemicals **Dr. Jochen Heidrich**
Oleochemicals **Dr. Paul Hövelmann**	Detergents Germany **Jörg Koppenhöfer**	Human Resources **Dr. Jürgen Maaß**	Cosmetics Central Europe / Bodycare **Dr. Angela Paciello** (from July 1, 1998)
Cosmetics Western and Southern Europe / Oral Care, Skincare, Fragrances **Isabelle Parize** (from July 1, 1998)	Manufacturing Chemical Products **Dr. Michael Schulenburg**	Detergents International **Jürgen Seidler**	Finance / Controlling **Dr. Lothar Steinebach**
Care Chemicals **Dr. Antonio Trius** (from April 1, 1998)	Cosmetics Overseas / Hair Care **Gabriele Weiler** (from July 1, 1998)	Logistics **Knut Weinke**	

Further information

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

Please send your requests for information to
Corporate Communications
Phone: (+49) 2 11-7 97-35 33
Fax: (+49) 2 11-7 98-40 40
E-mail: corporate.communications@henkel.de
Mailing address:
Henkel KGaA
D-40191 Düsseldorf
The Henkel homepage on the Internet:
http://www.henkel.com
Investor Relations
Phone: (+49) 211-797-39 37
Fax: (+49) 211-798-28 63
E-mail: magdalena.moll @ henkel.de
E-mail: waltraud.mueller @ henkel.de

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

A selection of publications currently available from Henkel.

Henkel Group Ten-Year Summary

(figures in DM millions, unless stated otherwise)	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	(EUR mill.) 1998
Sales	11,639	12,017	12,905	14,101	13,867	14,069	14,198	16,301	20,065	21,336	(10,909)
Operating profit	646	687	761	681	550 [5]	671	725	1,011	1,373	1,547	(791)
Earnings before taxes on income	655	689	742	621	584	677	760	888	1,957	1,259	(644)
Net earnings	404	429	443	402	385	464	488	555	626 [7]	727	(372)
DVFA/SG earnings per share (in DM)	3.10	3.20	3.10	3.05	3.20	3.35	3.35	4.00	5.35	6.25	(3.20)
Cash flow	1,035	1,203	1,323	1,397	1,443	1,288 [6]	1,249	1,425	2,035 [8]	2,083	(1,065)
– as % of sales	8.9	10.0	10.3	9.9	10.4	9.2	8.8	8.7	10.1	9.8	
Total assets	8,540	9,163	9,914	10,015 [4]	10,376	10,487	11,620	14,300	17,417	17,857	(9,130)
Fixed assets	4,210	4,503	4,789	5,278	5,485	5,449	6,554	7,847	9,858	10,101	(5,164)
Current assets (incl. deferred tax)	4,330	4,660	5,125	4,737	4,891	5,038	5,066	6,453	7,559	7,756	(3,966)
Debt	5,127	5,204	5,848	6,596	6,705	6,417	7,317	9,361	11,854	12,325	(6,301)
Shareholders' equity [1]	3,413	3,959	4,066	3,419 [4]	3,671	4,070	4,303	4,939	5,563	5,532	(2,829)
– as % of total assets	40.0	43.2	41.0	34.1 [4]	35.4	38.8	37.0	34.5	31.9	31.0	
Net return on sales (%) [2]	3.5	3.6	3.4	2.9	2.8	3.3	3.4	3.4	5.6	3.4	
Return on equity (%) [3]	13.6	12.3	11.6	11.2	11.6	12.8	12.3	12.5	13.1 [9]	13.1	
Capital expenditure	2,012	1,003	1,353	2,197	981	1,007	2,109	1,630	4,161	1,915	(979)
Research and development costs	359	374	400	414	402	369	369	385	466	489	(250)
Number of employees (annual average)											
– Germany	16,155	16,182	18,687	17,635	16,617	15,313	14,684	15,473	15,138	15,257	
– Abroad	20,809	22,028	23,353	24,561	23,853	25,277	27,044	30,904	38,615	41,034	
Total	36,964	38,210	42,040	42,196	40,470	40,590	41,728	46,377	53,753	56,291	

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) DM 1,127 million 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)

Henkel KGaA Ten-Year Summary

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	(EUR) 1998
Dividend per ordinary share (in DM)	0.60	0.65	0.70	0.70	0.70	0.90	1.05	1.20	1.35	1.55*	(0.79)
Dividend per preferred share (in DM)	0.90	0.95	1.00	1.00	1.00	1.10	1.15	1.30	1.45	1.65*	(0.84)
Total dividends in DM millions	102.5	109.5	116.5	116.5	116.5	144.6	159.9	181.1	203.0	232.2*	(118.7)
Capital stock in DM millions	702.5	702.5	702.5	702.5	702.5	730	730	730	730	730	(373)
– Ordinary shares in DM millions	400	400	400	400	400	400	400	433	433	433	(221)
– Preferred shares in DM millions	302.5	302.5	302.5	302.5	302.5	330	330	297	297	297	(152)

* proposed

Calendar

Annual General Meeting
of Henkel KGaA:
Monday, May 3, 1999
10:00 a.m.
CCD Congress Center, Düsseldorf

Publication of Quarterly
Report on January through March 1999:
Tuesday, May 11, 1999

Publication of Interim
Report on January through June 1999:
Tuesday, August 10, 1999

Publication of Quarterly
Report on January through September 1999:
Monday, November 8, 1999

Fall Press Conference and Analysts' Meeting:
Monday, November 8, 1999

Press Conference on Fiscal 1999 and
DVFA Analysts' Meeting:
Wednesday, March 22, 2000

Annual General Meeting
of Henkel KGaA:
Monday, May 8, 2000

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

Henkel

Glossary

Chemical and technical terms

▶ **Additives** Substances which, added in small quantities, significantly improve certain properties of the substance or mixture of substances, or facilitate their processing.

▶ **Beta-carotene** Provitamin important for nutrition that is found, inter alia, in vegetables, salads and fruit; supplied in high-dosage capsules as a food supplement. Beta-carotene protects against the effects of free radicals which promote aging and various illnesses.

▶ **Biomimetic** Technologies and products which mimic biological processes or structures.

▶ **Conversion treatment** Application of a thin protective layer of inorganic salts or oxides on metal surfaces as a corrosion inhibitor and to improve the adhesion of subsequent coatings.

▶ **Corrosion protection** Chemical treatment applied in order to inhibit the reaction of, for example, metallic materials with their environment which would otherwise result in a measurable change in, or the destruction of, that material.

▶ **Derivatives** In chemistry, a common name for substances derived from a chemical compound – often in only one reaction step – which are closely related to that compound in terms of their chemical utilization.

▶ **Eco Management and Audit Scheme of the European Union (EU)** Legal framework for the voluntary participation of industrial companies in a community system for environmental management and the ecological auditing of production facilities.

▶ **Epoxy structural adhesives** Adhesives which are used for the structural bonding of e.g. metals, ceramics and plastics.

▶ **Fatty acids** Class of substances found in all vegetable and animal fats and oils, bound to glycerine. Important starting material for numerous chemical products.

▶ **Fatty alcohols** Long-chain alcohols which are obtained at Henkel from fatty acid methyl esters or directly from fat by reaction with hydrogen (hydrogenation). Fatty alcohols are an important raw material for surfactants.

▶ **Fatty alcohol sulfates (FAS)** Significant group of surfactants based on fatty alcohols.

▶ **Glycerine** Major component of fats and oils; used inter alia for the manufacture of alkyd resins, polyurethane foams, in tobacco moistening and in the food and cosmetics industries.

▶ **Oleochemistry** Term for industrial chemistry involving natural fats and oils, used in analogy to the term petrochemistry.

▶ **Plastisol** Adhesive and sealant for various metal joints in autobody manufacturing (edge seam bonding for doors and hoods; underseal systems).

▶ **Polyurethanes** Plastics with an extremely wide range of specifically adjustable application properties; used for adhesives, sealants, foams, molded articles and many other applications.

▶ **Responsible Care®** A worldwide initiative developed by the chemical industry. It represents a commitment to continuous improvement in safety and the protection of health and the environment, going beyond the relevant statutory requirements. The chemical industries of more than 40 countries have joined this initiative. It is recognizable throughout the world by a uniform logo. Responsible Care® is a registered trademark.

▶ **Sulfonation plant** Production facility for the manufacture of anionic surfactants containing sulfate- or sulfonate-group compounds, e.g. fatty alcohol sulfates or alkyl benzene sulfonates.

▶ **Vitamin E** Vitamin E is a natural-source anti-oxidant. When employed within the organism and on the skin, it protects cells from premature aging processes induced by oxidative attack.

▶ **Water glass** Water-soluble alkaline silicon compound; important intermediate in inorganic chemistry; also serves as a corrosion inhibitor in detergents.

Glossary

Financial terms

▶ **Associated company** A business undertaking which is neither under the unified management control of nor majority-owned by the parent company, but over which a significant influence is exercised (shareholding of more than 20 percent).

▶ **Borrowings** This heading includes all long-term and short-term interest-bearing debt, e.g. bonds, participating certificates, participating loans, bank loans and overdrafts, loans from employee welfare funds.

▶ **Capital reserves** Reserves accumulated out of the premium on the issue of shares. The premium is that part of the purchase price which the providers of capital have paid for the shares in excess of their nominal value.

▶ **Cash flow** The "cash surplus" generated from the activities of the business. It is calculated starting from the operating profit. Financial items involving movements of cash are classified as cash flows from financing activities. In this context acquisitions are shown including the borrowings taken over less the cash and cash equivalents taken over.

▶ **Deferred charges and deferred income** Payments made or received in advance during the current accounting period which relate to a period after the balance sheet date.

▶ **Deferred taxation** Timing differences in the tax charge shown in the published financial statements of Henkel KGaA and of the Group compared with the computations for tax purposes. Showing the differences under this heading creates a sensible correlation between published net earnings and the tax charge actually attributable.

▶ **Debt discount** Amount by which the total of a loan repayable on redemption exceeds the amount received.

▶ **Equity method of valuation** Valuing shareholdings in associated companies at the appropriate proportion of their net assets and profit or loss for the year.

▶ **Fixed assets** Assets intended to be used long term.

▶ **Going concern concept** Assets and liabilities are valued on the assumption that the business will continue in operational existence.

▶ **Goodwill** The difference between the purchase price for a business and the value of its net assets (assets less liabilities).

▶ **Group companies** Henkel KGaA and all subsidiary companies, regardless of whether they have been included in the consolidated financial statements or not.

▶ **IASC** International Accounting Standards Committee, London
This body, set up in 1973, formulates rules (International Accounting Standards – IAS) with the objective of harmonizing the traditional variations in national accounting standards. This task is almost complete. The regulations largely ensure the international comparability of financial statements. The impact of IAS on accounting practices has increased significantly in recent years, a process which can be expected to continue both at national and at international level.

▶ **Minority interests** Minority shareholdings in companies in the Henkel Group, not held by Henkel KGaA or by other companies in the Group.

▶ **Revenue reserves** Reserves accumulated out of undistributed profits.

▶ **Shareholders' equity** Capital permanently available to the company in the form of amounts paid in or profits retained.

▶ **Special accounts with reserve element** In the published financial statements (drawn up in accordance with company law) this heading comprises amounts which have been charged against profits purely on the grounds of tax regulations. Such amounts can include:

- untaxed reserves which are taxed only when they are released to income; or
- depreciation and write-downs in excess of those charged under company law regulations.

▶ **Subsidiary companies** All business undertakings which are controlled directly or indirectly by Henkel KGaA as a result of a majority shareholding and/or unified management control.