Our 123rd Year 1999

Henkel Group Financial Highlights (figures in million euro unless stated otherwise)

	1998	1999
Sales	10,909	11,361
Adhesives	2,372	2,501
Cosmetics/Toiletries	1,705	1,814
Detergents/Household Cleaners	2,515	2,574
Industrial and Institutional Hygiene/Surface Technologies	1,697	1,769
Chemical Products (Cognis)	2,495	2,605
Other [1]	125	98
Operating profit	791	857
Earnings before taxes on income	644	692
Net earnings	372	404
Cash flow	1,065	1,247
– as % of sales	9.8	11.0
Shareholders' equity [2]	2,829	3,238
Capital expenditure	979	746
Research and development costs	250	279
Number of employees (annual average)	56,300	56,600

[1] secondary activities and general expenses

[2] including minority interests

Henkel KGaA

	1998	1999
Dividend per ordinary share in euro	0.79	0.87*
with tax credit	1.13	1.24
Dividend per preferred share in euro	0.84	0.93*
with tax credit	1.20	1.32

* proposed

We are an internationally operating Company with a widely diversified product portfolio. We count among the world's oldest and most successful brand manufacturers of household cleaning and body care products. Our chemical and engineering products business is similarly characterized by decades of experience and leading market positions. Our performance spectrum ranges from adhesives and surface treatment products to industrial cleaning systems and oleochemical products. Our research and development activities are application-oriented. Customer satisfaction provides both the yardstick and the basis for our success. We are committed to a value-enhancing corporate management approach that matches the expectations and interests of shareholders, customers and employees alike. Aside from securing and maintaining our standing as a top performer in all our fields of activity, we shall also continue to lead the way in the achievement of balanced ecological compatibility.

Henkel

Dear Shareholders,

Henkel continued its positive performance in 1999. Following a slow start, business picked up considerably as the year progressed. Both sales and earnings in 1999 exceeded the results of the previous year. Net earnings increased by 9 percent to 404 million euro confirming our strategy for achieving sustainable profit growth.

We succeeded in further expanding our leading market positions worldwide and made good progress in creating global business structures. Noteworthy is the establishment of our joint venture in the USA with The Dial Corporation, a manufacturer of detergents and household cleaning products. This move provides us with an entry into the American detergents market.

Also of major strategic importance is our cooperation agreement with Lion Corporation, Tokyo, in the fields of detergents, household cleaning products and cosmetics. Lion is one of the leading manufacturers in Japan of household care and cosmetic products.

In addition, we have strengthened our businesses through further acquisitions gaining access to new, future-oriented technologies as well as to promising international markets and applications.

As part of our continuous realignment of our business portfolio, we divested our paper auxiliaries business in Europe and our automotive aftermarket business in the USA during the year under review.

Since August 1999, the Chemical Products business sector has been operating as Cognis, an independent subsidiary. We believe that this important decision is the right response to the changes in the international chemical industry.

As the markets are changing at an ever-faster pace, we are ready to meet the challenges of international competition.

The innovation potential of R & D is a major source of our Company's added value. One of Henkel's core competencies is our application-oriented research and development. Comprehensive know-how and creativity are the basis for successful innovations, allowing us to better meet the requirements of our customers.

We have had a system of innovation management in place that encourages creative thinking and action at all levels and in all areas of the Company.

We plan to utilize the knowledge and experience of our employees more effectively in creating strategic competitive advantages through the application of modern methods of knowledge management.

Hans-Dietrich Winkhaus
President and Chief Executive Officer (left)

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

Several cross-functional project teams are in place to pursue the development of e-commerce.

Capable employees are a basic requirement for the successful development of our Company. Our personnel development and remuneration systems are clearly linked to success measurements such as individual target achievement, performance targets and share price developments. We are planning to expand our stock option program, in which currently approx. 200 senior executives participate, to other management levels encompassing a total of around 900 managerial employees.

We would like to express our appreciation to all our employees for their efforts and commitment in the past year. Thanks to their outstanding motivation, we have been able to meet the challenges of the markets and achieve strong financial results. We also express our appreciation to the employee representative bodies, both in Germany and in Europe, for their constructive cooperation and trust.

On April 24, 1999, Dr. Konrad Henkel, the grandson of the Company's founder and Honorary Chairman of the Group, passed away at the age of 83. Dr. Henkel worked for the Company for more than 50 years and was a key force in developing Henkel into an international concern. With him, we lost an outstanding business leader of exceptional human qualities.

We have started the new year with confidence. We expect that we will continue our good performance and further improve our earning power. We expect our results to significantly exceed the level of the preceding year.

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

Hans-Dietrich Winkhaus
President and
Chief Executive Officer

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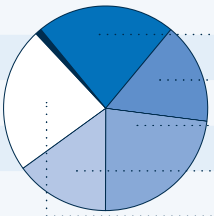


Adhesives

The Adhesives business sector is active throughout the world both as a brand-name supplier and in the industrial sector.

Product groups:

Consumer and Craftsmen Adhesives

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; roofing products; glue sticks, glue rollers, correction rollers, adhesive tapes.

Industrial and Packaging Adhesives

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

Reactive adhesives; high-performance sealants; sealing systems; assembly adhesives.

Cosmetics/Toiletries

A major step ahead for our cosmetics business: the entry into the North American body care market.

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.

Detergents/ Household Cleaners

The Detergents and Household Cleaners business made good progress in 1999, particularly in Europe.

Product groups:

Heavy-duty detergents; specialty detergents; fabric softeners; dishwashing products; household cleaners; scouring agents; floor and carpet care products; bath and toilet cleaners; glass cleaners and lens wipes; furniture and kitchen care products; shoe care and laundry conditioning products; plant care products.

Industrial and Institutional Hygiene/Surface Technologies

The systems-based businesses of Henkel-Ecolab and Surface Technologies have been merged within one business sector.

Product groups:

Industrial and Institutional Hygiene

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, pharmaceutical and cosmetics industries and in the agricultural sector.

Surface Technologies

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.

Chemical Products (Cognis)

The Chemical Products business sector was carved-out and established as a legally independent entity under the name of Cognis.

Product groups:

Oleochemicals

Fatty acids; glycerine and fatty acid derivatives; fatty alcohols and their derivatives; food and feedstuff additives; natural-source vitamin E and carotenoids.

Care Chemicals

Products for the cosmetics, toiletries and pharmaceutical industries and for the detergents and household cleaners industry; aroma chemicals/ perfume compositions.

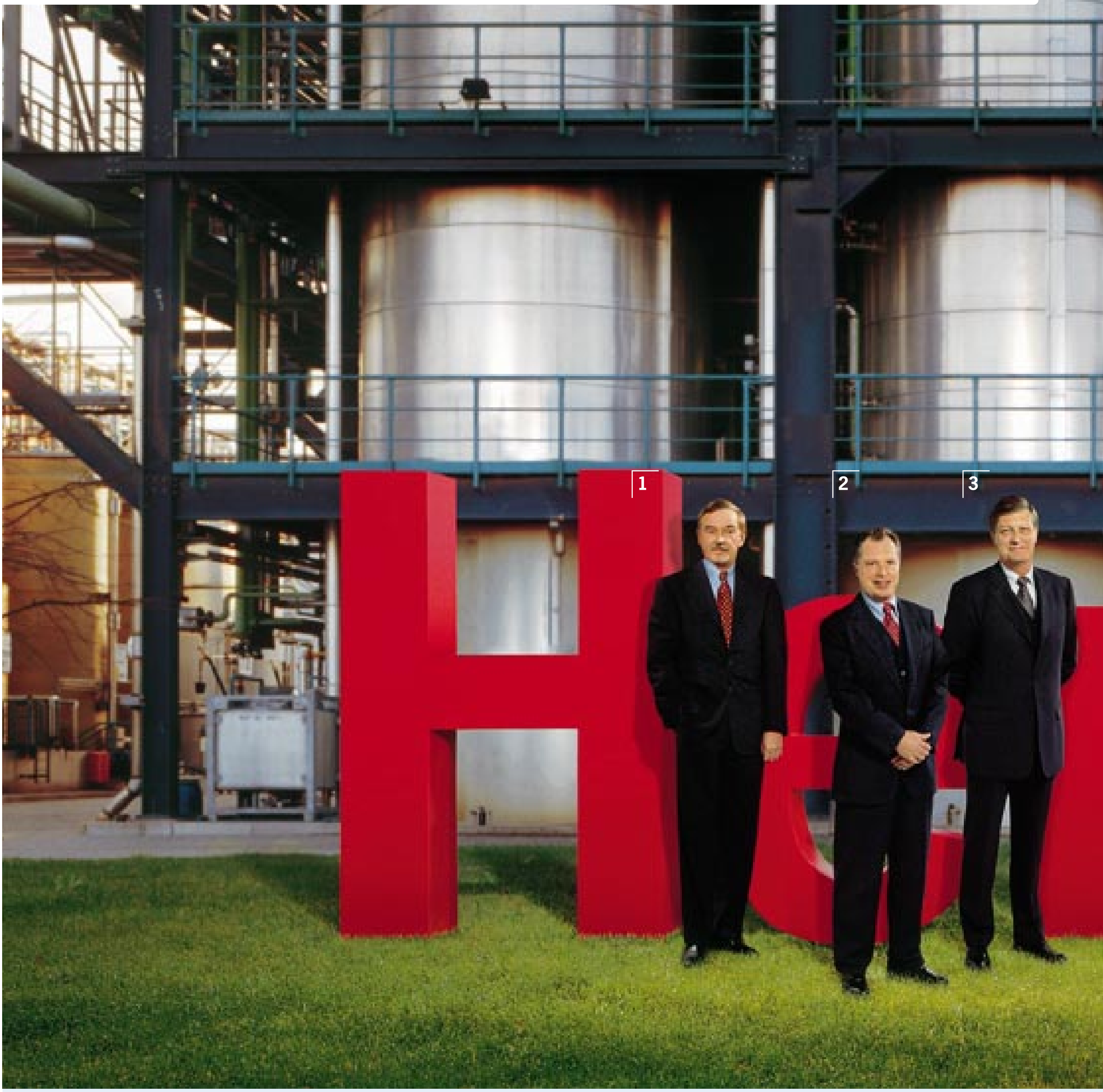
Organic Specialty Chemicals

Base materials and additives for plastics, paints 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

Silicates

Management Board

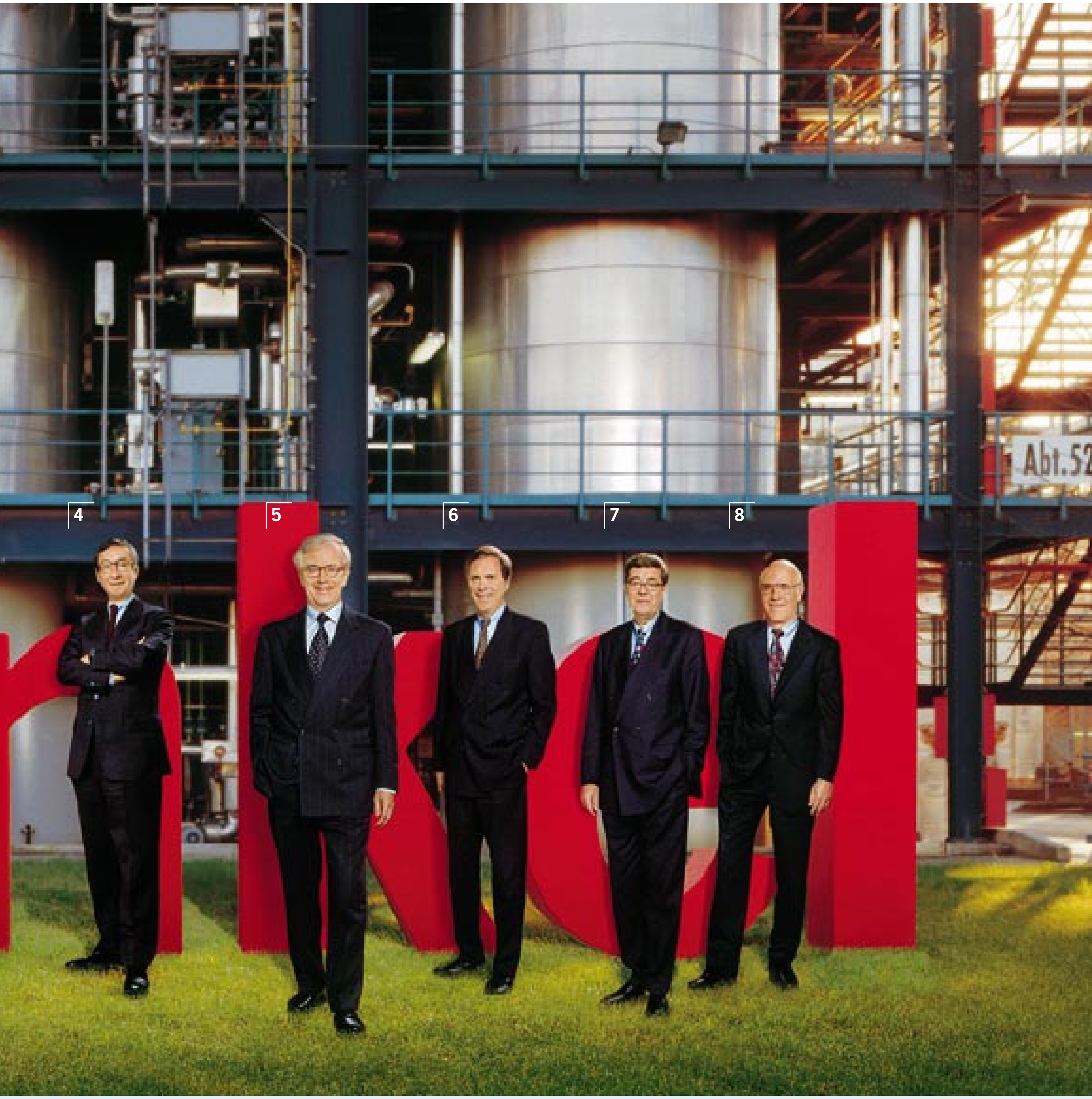


1 **Prof. Dr. Uwe Specht**
Executive Vice President Cosmetics/Toiletries and Personally Liable Partner of Henkel KGaA (age 56).

2 **Dr. Klaus Morwind**
Executive Vice President Detergents/Household Cleaners and Personally Liable Managing Partner of Henkel KGaA (age 56).

3 **Dipl.-Ing. Guido de Keersmaecker**
Executive Vice President Adhesives (age 57).

4 **Dr. Ulrich Lehner**
Deputy Chief Executive Officer and Personally Liable Managing Partner of Henkel KGaA (age 53).



5 **Dr. Hans-Dietrich Winkhaus**
President and Chief Executive Officer and Personally Liable Managing Partner of Henkel KGaA (age 62).

6 **Dr. Jochen Krautter**
Executive Vice President Finance/Logistics (age 57).

7 **Dr. Roland Schulz**
Executive Vice President Industrial and Institutional Hygiene/Surface Technologies/Human Resources and Personally Liable Managing Partner of Henkel KGaA (age 58).

8 **Dr. Harald Wulff**
Until September 30, 1999, Executive Vice President Chemical Products; from October 1, 1999, Chief Executive Officer of Cognis B.V. (age 60).

Henkel has mastered the challenges that came up in 1999: net earnings rose by 9 percent to a new record of 404 million euro and sales increased by 4 percent to 11.4 billion euro.

Good progress in businesses

The economic climate improved again during the course of the year, thanks in large measure to the easing of the financial and economic crisis in South East Asia, renewed growth momentum in North America and the gradual recovery in activity in Western Europe.

We have made good progress in all our businesses, launched innovative products on the market, and strengthened our position in core activities.

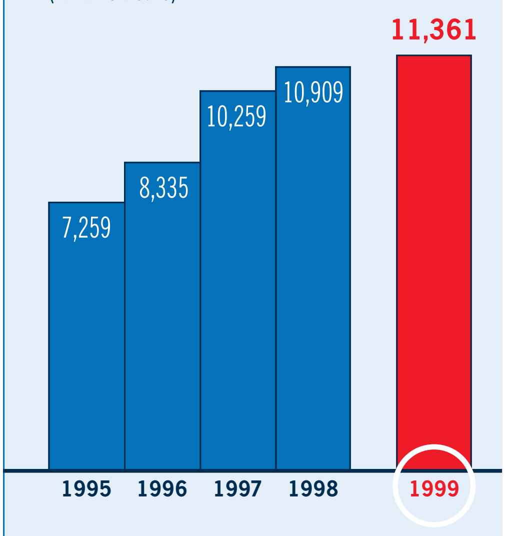
This performance is only partially reflected in our sales figures. Weak demand in the chemicals sector during the first half of the year and regional crises in Russia and Latin America were the main reasons for sales in our existing businesses showing an increase of only 2 percent. Acquisitions – net of divestments – and exchange rate fluctuations each contributed one percentage point to the overall increase in sales revenue.

Operating profit (EBIT) rose to a new record of 857 million euro, an increase of 8 percent. Return on investment improved from 12.4 to 13.2 percent.

Our business sector structure has changed. We have combined the previous Surface Technologies business sector with the Industrial and Institutional Hygiene business sector (incorporating the Henkel-Ecolab joint venture) to form one new sector: Industrial and Institutional Hygiene/Surface Technologies. The figures in this Annual Report relating to the previous year have been restated accordingly. Henkel now comprises five business sectors: Adhesives, Cosmetics/Toiletries, Detergents/Household Cleaners, Industrial and Institutional Hygiene/Surface Technologies, and Chemical Products (Cognis). The Cosmetics/Toiletries and Detergents/Household Cleaners sectors are shown separately in the segment information for the first time.

Consolidated Group Sales

(in million euro)



Henkel Group: Year-on-year sales growth by business sector in 1999

Business sector	Established business	Acquisitions/ Divestments	Effect of exchange rate fluctuations	Total
Adhesives	+ 4 %	– 1 %	+ 2 %	+ 5 %
Cosmetics/Toiletries	+ 2 %	+ 4 %	–	+ 6 %
Detergents/Household Cleaners	+ 1 %	+ 1 %	–	+ 2 %
Industrial and Institutional Hygiene/Surface Technologies	+ 2 %	+ 1 %	+ 1 %	+ 4 %
Chemical Products (Cognis)	–	+ 1 %	+ 3 %	+ 4 %
Henkel Group	+ 2 %	+ 1 %	+ 1 %	+ 4 %

Sales performance by region

Although economic growth in **Germany** for 1999 as a whole was only moderate, economic activity picked up in the second half of the year.

Sales revenues of our German companies were 1 percent below the previous year. Sluggish activity in the chemicals sector in the first six months of the year affected our sales of chemical products. Sales in the cosmetics and surface technologies sectors also failed to match the previous year's levels. Sales of adhesives and industrial and institutional hygiene products were good. Detergents and household cleaners recorded a modest increase, thanks mainly to a good performance from specialty detergents.

In **other European countries** the level of activity also generally improved. We increased total sales in these countries by 4 percent. Better than average increases were recorded in industrial and institutional hygiene business and – thanks to acquisitions – surface technologies. Sales of cosmetics and adhesives were in line with the overall trend, whilst sales of chemical products and detergents/household cleaners were only marginally up on the previous year.

The United States economy continued to forge ahead. Our sales in **North America** rose by 8 percent in total, partly due to acquisitions but also helped by the rise in the exchange rate value of the dollar against the euro. The customer base for our cosmetics business is now much broader since the acquisition of DEP Corp. (now Schwarzkopf & DEP). Adhesives, care chemicals and organic specialty chemicals also performed well, as did surface technologies business with the automotive industry. Sales of oleochemicals and in some areas of surface technologies declined.

Sales in **Latin America** were adversely affected by recessionary pressures in a number of Latin American economies. However, Mexico remained largely unaffected by this as it benefited from the strength of the United States economy through its membership with NAFTA. Our sales in this region were down 4 percent, due mainly to results in adhesives and surface technologies. Sales in our chemical products sector increased overall as a result of the strong performance in Mexico.

In **Africa** we achieved a 4 percent increase in sales, with a particularly strong contribution from our growing Egyptian subsidiary.

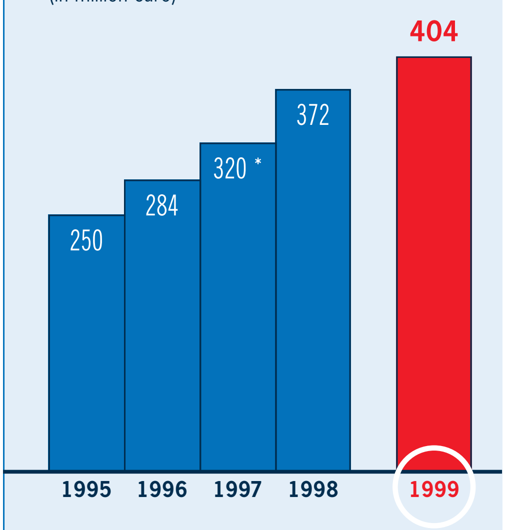
The economic recovery in South East Asia is reflected in our sales figures for the **Asia/Australia** region, where the increase was 21 percent. A significant proportion of this was attributable to higher exchange rates; in local currency terms the growth in sales was 12 percent, including 3 percentage points from companies included for the first time.

Record earnings

Operating profit – known by the internationally recognized abbreviation EBIT (Earnings Before Interest and Taxes) – is the pivotal earnings figure for the operational control of our activities. The continuation of our earnings growth trend in 1999 is mainly attributable to favorable developments in our cost of sales. In absolute terms, we experienced only a relatively moderate increase in cost of sales and, as a percentage of sales, cost of sales decreased when compared with the prior year. The main factor behind this was the favorable trend in raw material costs. The ratio of research and development costs to sales showed a slight increase, whilst the ratio of marketing and distribution costs and administrative expenses to sales remained the same. There was also no change in the ratio of other operating income to sales. Other operating charges were up on the previous year. The amortization of goodwill increased slightly, both in absolute terms and as a percentage of sales, owing to the first-time inclusion of companies recently acquired. Restructuring costs also showed an increase over the previous year. The main emphasis here was on structural improvements in the areas of chemical products and detergents and household cleaners.

Financial items showed a net loss of 165 million euro compared with 147 million euro in the previous year. Net income from associated companies was significantly lower owing to a special charge of 36 million euro in connection with our participation in The Clorox Company. This was Henkel's share of the cost of restructuring the First Brands acquisition, treated by Clorox as an extraordinary item in its own

Net Earnings
(in million euro)



* 576 million euro including gain from sale of GFC shareholding (Degussa)

financial statements. The net interest expense improved owing to a reduction in borrowings.

The effective tax rate – the ratio of taxes on income to earnings before tax – was down slightly at 41.6 percent compared with the previous year.

Net earnings of 404 million euro exceeded the previous year's figure by 9 percent. This is a new record level and a healthy continuation of the long-term upward trend in earnings.

Proposed distribution of profit

The dividend distribution is based on the financial statements of Henkel KGaA, which are reproduced in summarized form on page 15 of this Annual Report.

Our dividend policy is linked to the trend in earnings of the Henkel Group. 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).

Our recommendation to the Annual General Meeting will be for a dividend of 0.87 euro per share to be paid on the ordinary shares and 0.93 euro 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 cash dividend plus tax credit – will total 1.24 euro on each ordinary share and 1.32 euro on each preferred share, making a payout equal to 36 percent of the net earnings of the Henkel Group for the year after minority interests.

Henkel KGaA: Dividends in euro

	1995	1996	1997	1998	**1999**
per ordinary share	0.54	0.61	0.69	0.79	0.87*
with tax credit	0.77	0.80	0.98	1.13	1.24
per preferred share	0.59	0.66	0.74	0.84	0.93*
with tax credit	0.84	0.87	1.06	1.20	1.32

* proposed

Financial position

Cash flow increased by 17 percent in 1999 to 1,247 million euro. The ratio of cash flow to sales was 11 percent.

There was an even stronger increase in net cash inflow from normal operating activities due to a decrease in the financing needs of net working capital. The amount of cash necessary to fund receivables and miscellaneous assets increased due to growth in our businesses, but these increases were offset by improved inventory efficiencies and increases in other current liabilities.

After allowing for the proceeds from disposals of fixed assets, the net cash outflow for capital expenditures and acquisitions was much less than in the previous year. The main reason for this was a reduction in funds required for acquisitions.

After deducting the amounts expended on fixed assets and acquisitions and on the payment of interest and dividends (after setting off corresponding items of income received) there was a cash surplus from operations which was used to reduce borrowings.

Balance sheet structure

Total assets increased by 8 percent in 1999. Fixed assets rose by 7 percent and current assets by 10 percent.

Shareholders' equity (including minority interests), helped by favorable exchange rate movements, increased by 14 percent. The equity ratio improved from 31.0 percent to 32.9 percent. Debt capital increased by 5 percent. Pension provisions were up by 98 million euro to 1,871 million euro, other provisions by 187 million euro to 1,159 million euro. Provisions as a whole accounted for around 30 percent of the balance sheet total, the same proportion as in the previous year. Trade accounts payable went up by 226 million euro to 1,029 million euro.

Borrowings were reduced by 248 million euro to 1,915 million euro. The ratio of borrowings to shareholders' equity (the gearing ratio) amounted to 59.1 percent in 1999 (1998: 76.5 percent).

Return on equity went up from 13.1 to 14.3 percent.

Henkel Group: Balance sheet structure

	Dec. 31, 1998	**Dec. 31, 1999**
	EUR mill.	EUR mill.
Total assets	9,130	9,856
(as % of total equity and liabilities)		
Fixed assets	56.6	55.8
Inventories	15.6	15.3
Receivables and miscellaneous assets *	26.4	27.4
Liquid funds/ Marketable securities	1.4	1.5
Equity incl. minority interests	31.0	32.9
Long-term borrowings	27.8	25.9
Short-term borrowings	41.2	41.2

* incl. deferred tax assets

Cognis sub-group

The carve-out of the Chemical Products business sector and its establishment as a separate legal entity under the Cognis name was a particularly important event for Henkel in 1999.

The carve-out, recommended by the Management Board, the Supervisory Board and the Shareholders' Committee, was approved by the Annual General Meeting of Henkel KGaA held on May 3, 1999.

This move has created – within the Henkel Group – an independent group with around 10,000 employees, 52 companies and total sales worth 2,735 million euro.

This new organizational form enables us to combine and pursue the following objectives:

- Development of additional customer potential
- Increased flexibility for Cognis management as a result of the greater entrepreneurial scope provided by legal independence
- Extended financial resourcing for Henkel through the direct access of Cognis to the capital markets

- The development of a chemicals-specific image by the new group of companies

Cognis Deutschland GmbH will continue to use the main central facilities and also the infrastructure available at the Düsseldorf-Holthausen site. Foreign Cognis companies will also be supported in their business processes by the administration structures previously jointly utilized in conjunction with other companies of Henkel.

The services of Henkel KGaA and other established Henkel companies will be provided in each case in accordance with standard market conditions and on a contractual basis.

Major acquisitions and joint ventures

One of our strategic objectives in the detergents sector is to have a presence in all the main economic regions of the world. Until recently this had not been achieved in the United States. Early in 1999, therefore, we set up a joint venture together with the Dial Corporation, an American manufacturer of detergents and household cleaners. The Dial/Henkel LLC joint venture is based in Scottsdale, Arizona, and Henkel holds 50 percent of the capital. The purpose of the enterprise is to launch new detergents and household cleaning products onto the market using as our platform the detergents brand name Purex, well known in the USA.

Financial Statements of Henkel KGaA (summarized) *

Statement of Income	1998	1999
	EUR mill.	EUR mill.
Sales	3,070	2,360
Cost of sales	1,990	1,530
Gross profit	1,080	830
Selling, research and administrative expenses	1,030	823
Other income (net of other expenses)	172	130
Operating profit	222	137
Gains on disposal of financial assets	72	911 **
Other financial items	89	58
Financial items	161	969
Special pension costs ***	– 62	–
Change in special accounts with reserve element	3	6
Earnings before tax	324	1,112
Taxes on income	– 138	– 78
Net earnings	186	1,034
Allocation to revenue reserves	– 67	– 517
Unappropriated profit	119	517

Balance Sheet	Dec. 31, 1998	Dec. 31, 1999
	EUR mill.	EUR mill.
Property, plant and equipment and intangible assets	443	350
Financial assets	2,896	3,895
Fixed assets	3,339	4,245
Inventories	299	157
Receivables and miscellaneous assets	1,730	1,780
Liquid funds	2	4
Current assets	2,031	1,941
Total assets	5,370	6,186
Shareholders' equity	1,848	2,763
Special items	354	261
Provisions	1,378	1,391
Liabilities	1,790	1,771
Total equity and liabilities	5,370	6,186

* 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.

** Mainly book profits on transfers of shareholdings within the Group.

*** Expense of the change in mortality statistics.

At the middle of 1999, the joint venture acquired for 9.2 million euro the business of, and all the rights to, the "Custom Cleaner Home Dry Cleaning Kit" of Creative Products Resource Inc., Fairfield, New Jersey, USA. "Custom Cleaner" is a system for the chemical dry cleaning of textiles in the tumble drier, and thus constitutes the first chemical cleaning system for home use. This new application system, which is to be launched at the beginning of the year 2000 on several European markets under the brand name "Svit", enables us to gain entry into an innovative market and represents an ideal complementary system to our classic cleaning products.

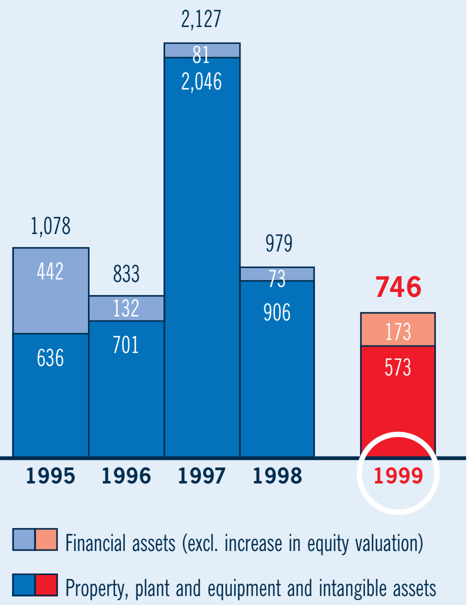
At the end of 1999 we signed a cooperation agreement with the Lion Corporation in Tokyo – one of Japan's leading manufacturers of household care and cosmetic products – in the field of detergents, household cleaners, toiletries and oral hygiene products. In order to underpin the alliance, each of the two companies will hold shares in the other partner. Henkel has become one of the largest individual shareholders of Lion with a participation of approx. 5 percent, acquired at a price of 44 million euro. Lion will have a share in Henkel KGaA of equivalent value. As the first foray of the joint venture, in April 2000 Lion will be introducing a completely new heavy-duty detergent in tablet form developed for the Japanese market.

In the automotive components sector we have strengthened our base in Japan by way of a cooperation agreement with Cemedine Co. Ltd., Tokyo. In the Japanese market Cemedine is one of the leading suppliers of sealants and adhesives, as well as of coatings for industry, craftsmen and consumers. Within the framework of the joint venture, Henkel has taken a 10 percent shareholding in Cemedine at a purchase price of 4 million euro. An important component of the cooperation agreement is the establishment of a joint venture for adhesives and sealants for the automotive industry in Japan.

With Loctite we are a world leader in the engineering adhesives sector and intend to expand our position further in the rapidly growing electronic components market. To this end, in January 2000 we submitted via the newly founded subsidiary Loctite Investments Ltd. a cash settlement offer to the shareholders of Kelsey Industries plc, Hemel Hempstead, Great Britain, for the ordinary and preferred shares quoted on the London Stock Exchange. The takeover has since been successfully completed. The total purchase price amounts to 43 million pounds sterling. Henkel has thus acquired the UK business of the Multicore-Solders

Capital Expenditures on Property, Plant and Equipment and Financial Assets Henkel Group

(in million euro)



group previously owned by Kelsey Industries. This server of the electronics sector specializes in soldering materials for chip manufacture and printed circuit board assembly. Multicore achieved sales in 1999 of around 60 million euro on the basis of a workforce numbering 630 employees.

In France we have acquired Laboratoires Sērobiologiques S.A., Nancy, a company that develops and manufactures active ingredients and feedstock materials, based mainly on plant extracts, for the cosmetics industry, selling mainly in Western Europe, the United States and the Far East. This acquisition is a further significant step toward the expansion of the market position of Cognis as a supplier of highly innovative specialty products. The purchase price was 32 million euro.

As of March 1, 2000, Cognis Ibēria of Spain took over from La Seda de Barcelona the business of Hispano Quīmica S.A. which is active in the field of specialty chemicals. Sales at Hispano Quīmica last year amounted to 30 million euro.

Major divestments

We continued to strengthen our focus on our core activities in 1999, resulting in disposals of some non-core businesses during the year. These included the automotive aftermarket business in North America that came with the Loctite acquisition. The sales price was 123 million US dollars. We have also sold our remaining activities in the field of paper auxiliaries within the framework of a management buy-out effected through the agency of Nordic Capital, a company in Scandinavia that specializes in such takeovers. Most recent annual sales, achieved with a workforce of 120 employees, were approx. 50 million euro. The selling price was of a similar magnitude.

Capital expenditures

Investment in property, plant and equipment, intangible assets and financial fixed assets in 1999 amounted to 746 million euro. Intangible assets accounted for 133 million euro, property, plant and equipment for 440 million euro, and financial assets 173 million euro. 476 million euro of the total was invested in our established businesses (1998: 582 million euro).

The following major projects were completed in 1999:

- Production plant for the manufacture of hotmelt adhesives in Bopfingen, Germany
- Construction of a factory for the manufacture of building chemical products in Walbrzych (Waldenburg), Poland
- Expansion in the production of detergent tabs in Düsseldorf-Holthausen
- Expansion in production of Somat "2 in 1" tabs in Foetz, Luxembourg
- Plant for the manufacture of unsaturated fatty alcohols in Düsseldorf-Holthausen
- Plant for the manufacture of raw concentrate for vitamin E production in Jacarei, Brazil

In the year 2000 investments in property, plant and equipment will be similar in volume to those undertaken in 1999. The main recipients will be the business sectors Adhesives, Detergents/Household Cleaners and Chemical Products. With approximately equal shares, these businesses will together account for two thirds of the total capital expenditures envisaged.

The following major projects are expected to be completed in the year 2000:

- Technical test and development facility and customer advice center in Detroit, USA, for adhesive applications in the automotive sector
- Plant for the manufacture of adhesives for medical applications in Dublin, Ireland
- Construction of factories for the manufacture of building chemicals in Bucharest, Romania and Tuzla, Turkey
- Further expansion of production capacity for detergent tabs in Düsseldorf-Holthausen and in Herent, Belgium

Expenditure on research and development

In 1999 we increased our expenditure on research and development by 12 percent to 279 million euro. The proportion of this investment in relation to sales thus rose from 2.3 to 2.5 percent. We spent 118 million euro on application-related advice and consultancy for the customer, a figure that represents a 9 percent increase over the previous year. As an average for the year, around 3,800 employees were engaged in research, development and application engineering worldwide.

The main areas of our research and development activities for 1999 are described in the "Research and Technology" section on page 24 of this annual report.

Safety, health and the environment

The achievement of continuous improvements in the fields of safety, preventive health measures and environmental protection is integral to the central thrust of our corporate policy.

Since 1992 we have been issuing a separate report covering these subjects on an annual basis. This is published at the same time as the Annual Report and provides information on the progress made and innovations introduced in the associated areas in relation to our products and production sites. This year, within the framework of a concise report, we are concentrating more heavily on providing quantitative information of significantly greater scope and analytical content.

Our Group-wide standards in the fields of safety, health and the environment, and also the associated detailed guidelines, are fully in line with the requirements of the worldwide Responsible Care® program of the chemical industry.

We intend to have our standards implemented at all our production sites by the year 2001 and are performing systematic audits in order to ensure that this is the case. By the end of 1999, we had audited two thirds of our production sites.

The business sectors and also our individual sites continue to avail themselves of the opportunity to obtain environmental/ecological compatibility certificates on the basis of audits performed by external agencies – in accordance with the worldwide environmental management standard ISO 14001 and/or the Eco Management and Audit Scheme of the European Union. To date, 31 sites have been registered to ISO 14001.

In a study of the ecological performance of 50 of the world's largest chemical companies, carried out for the third time by the Hamburger Umweltinstitut e.V. (HUI) and Germany's "manager magazin" in 1999, Henkel took first place as the most environmentally compatible chemical company.

Procurement

Expenditure on materials at the Henkel Group in 1999, at 4.6 billion euro, remained at the same level as the previous year. Our worldwide procurement network was further expanded in 1999. Purchasing strategies are coordinated on a multi-functional basis by a number of international teams. Our international procurement capability encompasses the entire range of our purchasing needs. Through worldwide cooperation, we have succeeded in greatly limiting the costly effects of the currently strong dollar and of the price increases that have occurred in relation to petrochemical-based raw materials. We are also utilizing to an ever greater degree the opportunities available through the vehicle of e-commerce.

Risk management

Risk management, as we see it, is the effective and efficient handling of risks and opportunities in the context of value-led corporate management. Our risk management system is firmly founded in our corporate strategy and structure. It is intended to maximize opportunities which arise from our business activities and to counteract potential dangers in a timely manner. We have decentralized the responsibility for this as much as possible. Identifying and controlling risks is the responsibility first and foremost of those operating units which have the relevant knowledge of the markets. Performance-related management of the business sectors and corporate financial controlling for managing the finances of affiliated companies are important structural elements of our risk management system. The strategic Corporate Controlling department and the Treasury Controlling department also perform centralized risk management functions. The same applies to the internal audit department which has an independent supervisory function and carries out checks on the cost-effectiveness and proper implementation of business procedures. Insurance management, human resource control, and management of the environment are other areas which contribute to the risk management function in their particular spheres. The problems of risk control in special situations are tackled with the help of project teams; this applied, for example, to the preparation of our information and control systems for the year 2000, and still applies to the introduction of the euro at the start of 2001 as house currency for our companies based in the euro zone.

The risk management system of the Henkel Group is documented in a special manual which is constantly being updated. This manual helps our independent auditors to carry out a properly informed systems audit. This means that, as in the previous year, there is a documentary record of the fact that Henkel has a fully functional monitoring system in place that enables risks to be identified in good time and therefore helps to prevent the occurrence of developments which could endanger the future of the Company.

New stock incentive program

This year we are planning to introduce an additional stock incentive program. The objective is to enable around 900 senior executive personnel around the world to share in the rise in the Henkel share price and thereby have a direct interest in the increasing value of the Company. Participants in the scheme will be granted option rights with a five-year term to subscribe for Henkel preferred shares. The program involves an annual issue on a revolving basis, the relevant terms being revised each year by the Management Board and Shareholders' Committee.

The exact number of shares which can be bought with an option depends on at least one of two performance targets being met. One of the targets is based on absolute performance (the performance of the Henkel preferred share price) and the other on relative performance (comparing the performance of Henkel's preferred shares with the Dow Jones Stoxx index).

To prevent any dilution of capital resulting from the issue of new shares, the stock incentive program is to be financed by buying back Henkel's own shares under § 71 (1) no. 8 of the German Corporation Act (AktG). The share buy-back still has to be approved by the Annual General Meeting on May 8, 2000.

Outlook

We consider that the prospects for our businesses in the year 2000 are good overall. This assessment is based on forecasts for the economy as a whole, which are generally positive. Growth in the euro area is expected to accelerate. Germany, in particular, is expected to make a stronger contribution to this. The countries of Central and Eastern Europe are forecast to make further progress. The extremely robust economic growth which the USA has now been experiencing for years is expected to slow down a little. Latin America is said to be heading for recovery. Economic growth in the emerging markets of Asia and in Japan will probably be similar to that recorded in 1999.

The global economy may be at risk from the possibility of a further increase in oil prices and the repercussions which that would have on prices in general. The economic growth forecast could be held back by rises in interest rates to damp down the effects of inflation. There are risks of a regional nature, in our view, in the cyclical upturn in Japan, the effect of which has so far been restricted to public sector programs; the need for structural reforms still to be met in the emerging countries of Asia; the high level of government debt in Brazil; and the relatively unstable political situation in Russia.

Against the background of these risks and prospects for world economic activity we have budgeted for consolidated Group sales to grow more strongly in the year 2000.

We are anticipating that our markets will benefit most of all from the continued cyclical upturn in the chemicals sector; the sustained high level of activity overall in the automotive industry; the gradual improvement in the construction sector; and the continuing rise in consumer spending against the background of stronger economic growth in Europe.

Our assumptions with regard to exchange rate movements are that the euro will remain steady or could strengthen slightly against other major currencies. As far as the exchange rate against the dollar is concerned we expect the euro to increase in value again during the course of the year compared with its level at the beginning of the year and we reckon that the average rate for the year will be roughly the same as in the previous year.

For the year 2000 we have chosen Henkel's motto as the "Year of Organic Growth". Growth through innovation, international roll-out of successful consumer products, and faster response times in the marketplace ("time-to-market") are central elements of our strategy.

Improving our return on investment remains one of our top priorities. We will continue vigorously to pursue the various different measures which we have introduced in 1999 under our motto for that year, the "Year of ROI" (Return On Investment). In 1996 we set for ourselves the goal of achieving, by the year 2000, a return on equity of 15 percent and a net return on sales of 4.5 percent. Since then we have raised our return on equity to 14.3 percent. The net return on sales, at 3.6 percent, still has room for improvement. Meanwhile in each of the previous two years we succeeded in realizing our third aim: annual double-digit growth in earnings per share. Despite the one-time charge that we bore in 1999 related to the restructuring at Clorox we nearly hit our target with earnings growth of 9 percent.

Our targets for the year 2000 are equally ambitious. We are confident that we will be able to post another reasonable improvement in earnings this year.

The performance of Henkel's ordinary and preferred shares in 1999 was not satisfactory. Financial analysts give a positive outlook on Henkel for the year 2000 with an upside share price potential of 80 euro.

Henkel shares

Between 1996 and 1998 the overall increase in value (dividends plus share price appreciation) of Henkel's ordinary and preferred shares averaged 31.6 percent and 40.8 percent, respectively, per annum. In 1999, however, the performance of Henkel shares was disappointing: the value of the ordinary share fell by 16.9 percent and the value of the preferred share by 11.3 percent, while the DAX index, by contrast, rose by 39 percent.

This decline in the value of Henkel shares is primarily attributable to negative trends in the chemicals and consumer goods sectors. Investors have been wary of specialty chemical companies because of rising raw material prices in the petrochemical industry. Henkel shares have been hit by this trend in the sector despite the fact that Henkel uses preferably renewable raw materials such as coconut or palm kernel oil. Moreover, the poor earnings performance of several consumer goods companies in the USA and Europe, coupled with falling demand for consumer goods in Western Europe, have also resulted in the entire sector being put under review.

Financial analysts, however, are still evaluating Henkel positively. Eleven renown brokerage houses are currently recommending Henkel shares as a buy. The average upside potential for the share price over the next twelve months is seen at 80 euro.

Henkel's market capitalization at December 30, 1999 was around 8.7 billion euro. An average of 927,336 preferred shares and 86,274 ordinary shares were traded daily throughout 1999.

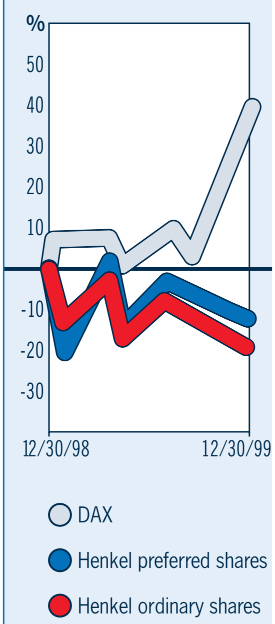
A long-term oriented investor who bought Henkel preferred shares for the equivalent of 10,000 euro when they were first issued in 1985 would have experienced an increase in net worth to 61,000 euro (excluding the effects of taxation) by the end of 1999. This represents an increase in value of 13.5 percent a year. The average annual return on the DAX index over the same period was 13.4 percent.

Following the carve-out of our chemicals business into an independent subsidiary under the name of Cognis and our increasing focus on consumer product activities, Henkel's preferred shares were reallocated to other sectors both in the DAX and in the Dow Jones Stoxx indices.

In the DAX 30 and the DAX 100 Henkel's preferred shares have been reclassified under "Consumer & Retail". In the

Performance in 1999

Basis 12/30/1998



Dow Jones Stoxx and Euro Stoxx they have been allocated to "Non-cyclical Goods and Services". Following this reclassification we expect different valuation criteria to be applied to Henkel shares, which may result in a higher valuation.

Investor relations

One of our main objectives is to convince financial analysts and investors that our shares still have a considerable upside potential. We have therefore significantly expanded our investor relations activities. In addition to many one-to-one meetings at our headquarters in Düsseldorf we have increased the number of presentations for institutional investors and financial analysts in Germany and abroad.

This year, too, we will further enhance the level and quality of our dialogue with investors and analysts. We want to keep them even better informed about the innovative strength of the Group and our prospects for growth in European and global markets.

Up-to-date information can now also be downloaded from our new website on the Internet (www.ir.henkel.com).

Key data on Henkel shares in euro

	1995	1996	1997	1998	**1999**
Earnings per share in accordance with IAS					
Ordinary shares	–	1.69	1.94	2.28	2.46
Preferred shares	–	1.74	1.99	2.33	2.54
Share price at year end					
Ordinary shares	–	37.68	51.13	67.75	55.50
Preferred shares	27.51	38.76	57.52	74.09	64.90
High for the year					
Ordinary shares	–	38.76	52.05	81.30	72.50
Preferred shares	29.83	39.73	58.80	93.80	79.30
Low for the year					
Ordinary shares	–	30.93	37.43	50.36	50.70
Preferred shares	25.97	27.81	39.01	54.35	57.60
Price/earnings ratio					
Ordinary shares	–	18.43	18.69	21.20	22.56
Preferred shares	16.06	18.95	21.03	23.18	25.53
Dividend					
Ordinary shares	0.54	0.61	0.69	0.79	0.87 *
Preferred shares	0.58	0.66	0.74	0.84	0.93 *
Dividend yield **					
Ordinary shares	–	1.63 %	1.35 %	1.17 %	1.57 %
Preferred shares	2.41 %	1.72 %	1.29 %	1.14 %	1.43 %
Number of shares (in millions)	146.0	146.0	146.0	146.0	146.0
Ordinary shares	80.0	86.6	86.6	86.6	86.6
Preferred shares	66.0	59.4	59.4	59.4	59.4
Market capitalization (in billion euro)	4.04	5.57	7.82	10.28	8.67

* proposed

** based on share prices at year end

Good ratings confirmed

As a globally operating Company, Henkel predominantly secures financing on the international money and capital markets. Access to the world's financial markets enables Henkel to reduce its financing costs and render its capital raising activities more flexible. The credit worthiness of the Henkel Group has been evaluated since 1993 by the rating agencies Standard & Poor's and Moody's. The good ratings were again confirmed in spring 1999.

Moody's

P1	*(short term)*
A1	*(long term)*

Standard & Poor's

A1 +	*(short term)*
AA –	*(long term)*

Securing the future through innovation is the core task underlying our research and development effort. The incorporation of new expertise within our products creates additional benefit for customers and consumers alike. So we regularly make use of external resources to strengthen our internal know-how.

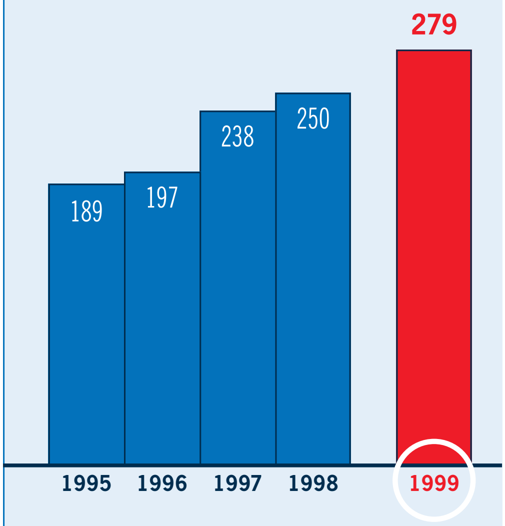
In the adhesives and sealants sector, the impetus for development work very often comes from general technological advancements.

An example of new product technologies in the craftsmen sector is provided in the form of the Ponal Rapido expansion adhesive. Through the employment of new raw materials, it has been possible to eliminate the need for environmentally harmful propellants. Moreover, a previously unachieved combination of properties has been attained with rapid hardening being accompanied by long shelf life and high storage stability.

A further example is that of our Macromelt molding system, an innovative plastics processing technology which, thanks to the special characteristics profile of the materials used, enables the embedding of even very delicate insertion components in the injection molding matrix.

Expenditure on Research and Development Henkel Group

(in million euro)



In the development of new cosmetic products, proving the effectiveness of the active ingredients plays an essential role. This requires interdisciplinary cooperation and the effective utilization of new technologies and methods.

We have found that, in the field of oral hygiene and dental care, the combination of alkyl polyglycosides with the active ingredient chlorohexidine leads to a significant increase in the anti-microbial effect. Using this complex of active ingredients, we have succeeded in developing a range of innovative mouthwashes and toothpastes for our oral hygiene and dental care product group.

One of the particular aims of our R & D effort in the Detergents/Household Cleaners business sector is to develop products that offer higher performance and greater ease of use: Around the middle of 1999, an innovation was launched onto the dishwasher detergents markets in Germany and Austria in the form of Somat "2 in 1". The sparkle-rinse core of this product operates on the basis of temperature-controlled, delayed surfactant release during the rinse cycle.

The requirements placed on quality and hygiene in food processing and production, and also on the elimination of environmental pollution, are constantly rising. In the field of disinfection cleaning with normal liquid products, problems have arisen in the past in ensuring firstly that the full surface has been covered, and secondly – particularly where the surface is vertical – that the required contact time of the surface with the active substances is maintained. In response, we have developed P3 topax integral. This product is applied as a blanket-coverage foam. As the foam subsides to produce a highly viscous film, long contact times of the active substances on the surface are ensured.

Weight reduction, simplified process sequences and good corrosion protection combined with improved environmental compatibility are the requirements being imposed on the communications and transport technology of the future. Aluminum and magnesium are thus being increasingly used as materials for lightweight constructions. New systems have had to be developed to ensure durable corrosion protection in such cases. With our chrome-free Allodine products we are in a position to offer a range of solutions which can be integrated in established customer processes without difficulty.

Knowledge management and know-how transfer are given a particularly high priority at the chemicals subsidiary Cognis. It is becoming ever more important for us to impart to customers essential expertise relating to special application technologies, and to demonstrate to them how they can gain specific benefits from using our technologies.

In the field of chemical products, we have developed new active ingredients that promote soil improvement and can thus be used to good effect in agriculture and forestry. Meanwhile, the Cognis textile auxiliaries unit in the USA has developed an inline mixer in order to ensure that the customer can achieve precise dilution levels and mixing ratios when employing our products.

Corporate Research & Technology

The framework for our corporate research & technology projects is provided by our corporate strategies and a strong alignment toward the market in terms of efficiency and development time (time to market). The core element of our innovation effort is that of explorative research with which we develop new technologies, methods and product concepts for future business exploitation. We are particularly concerned with the subject areas of microreaction technology, cosmeceuticals (cosmetics with scientifically based activity) and the increased utilization of biodiversity. Our research work in the field of nanotechnology and in relation to “Smart Systems” is beginning to bear fruit, and there are many potential applications waiting to be developed.

The utilization of external know-how in order to supplement our own core competencies is becoming increasingly important to us. We expect particular impetus to come not only from investments in venture capital funds but also from participations in young start-up companies, and from a worldwide network of joint research activities with a regional focus. For the year 2000, we have earmarked a total of 13 million euro for such projects.

Innovation awards 1999

Once again this year, particularly innovative products and products enjoying special market success have qualified for special recognition. The 18th Fritz Henkel Award for Innovation was conferred on the following projects:

- ***Poly Re-Nature-Creme – an alternative hair coloration system***
- ***Detergents in tablet form***
- ***Terocore polymer foam for reinforcing car bodies***
- ***Loctite Control – a new dispenser for superglue adhesives***
- ***Vegetable-based, unsaturated fatty alcohols***

Globalized markets and our acceleration toward the information society mean that tapping the knowledge and the creativity of all our employees is becoming a decisive factor for success. The response to this challenge: Knowledge Management

Value-oriented personnel management

The objective of our human resources strategy is to further enhance the competitiveness of Henkel and thus exert a positive influence on shareholder value. Personnel development plays a central role in this worldwide endeavor and we intend to further strengthen our activities in this regard. Globalized markets demand harmonized human resource systems. These must, however, also be flexible enough to allow for cultural differences.

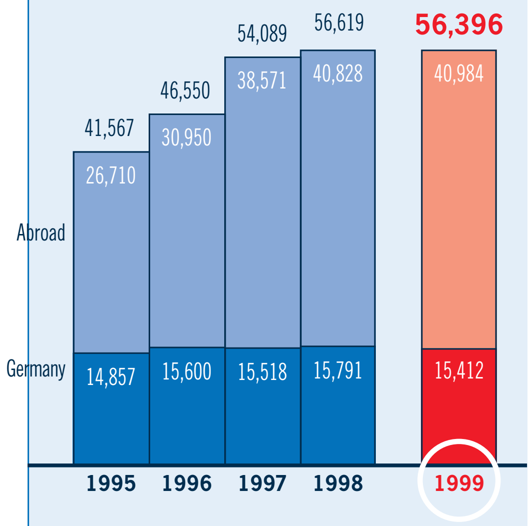
International personnel selection

The market for highly qualified junior managers is extremely competitive at the international level. Companies in the fields of telecommunications and information technology in particular are driving demand. Moreover, competition for suitable staff can be expected to further increase in coming years.

In order to ensure that we too will be able to attract the better-qualified and more internationally aligned managers within the Henkel Group, we have further strengthened our activities in the field of recruitment. An international team has prepared a catalogue of measures designed to improve efficiency in the attraction and selection of junior management material. We have further systemized our cooperation with universities and recruitment agencies. We are also increasingly using the Internet as a means of communicating with applicants at an international level.

Employees at the Henkel Group

(at Dec. 31)



Performance-related remuneration

The performance orientation of our managers and their alignment to the success of the Company are being further enhanced through the introduction of improved personnel management instruments. We apply our methods for performance and competence evaluation on a worldwide scale. The appraisal meeting that takes place between the departmental managers and their employees is also utilized to provide advice and encouragement.

Our remuneration systems are performance-related and contain a high success-governed variable component for the managerial staff. These systems are internationally competitive and have also been designed to facilitate adaptation to future requirements. Aside from individually attained performance levels, considerable weighting is also given to team and corporate success.

Knowledge management

We expect our employees to continue in their professional development through ongoing further education and a vigorous exchange of knowledge beyond national borders and corporate sectors. The platform for this is provided in the form of training activities offered internationally, a targeted knowledge management system and the appropriate deployment of innovative methods of learning.

In the "Henkel Global Academy", we have compiled a range of further education courses and programs for our international managers. We have also adopted a new methodology for unsupervised learning using electronic media.

We have thus begun to more extensively systemize our knowledge-related activities within the Company. These various projects are all run under the auspices of our Knowledge Management team. The know-how gained from the essential processes and procedures as applied to day-to-day business activities is also stored in a dedicated database. Existing expert knowledge can thus be utilized for new projects.

We have developed a system, dubbed TechKnowledgy, which facilitates the PC-supported transfer of knowledge for the preparation and post-appraisal of seminars.

Movements in personnel numbers

The increasing globalization of the Henkel Group is also reflected in the movements in personnel numbers. In the last five years, the number of employees outside Germany has increased by 14,274 to a total of 40,984. The proportion of total employees located outside Germany at the end of 1999 lay at 73 percent. The total number of employees decreased in 1999 by 223 to 56,396.

Indices

The payroll cost ratio, i.e. the ratio of personnel costs to sales at the Henkel Group for 1999, increased by 0.3 percent to 20.4 percent. At the same time, sales per employee rose by 4 percent to 200,700 euro.

The commitment of our employees is also expressed by the number of suggestions for improvements submitted by them. In Düsseldorf-Holthausen, this rose in 1999 by 25 percent to 5,642 suggestions. As a result, savings were achieved amounting to 2.6 million euro in the first year following implementation of the improvements concerned.

Outlook

Particular emphasis is placed in our personnel policy on the further development of our employees, knowledge accumulation and knowledge transfer.

We shall also be endeavoring to increase the international alignment both of our recruitment activities and our personnel deployment patterns.

Liofol

Liofol film laminating adhesives are marketed throughout the world.

We succeeded in consolidating and further expanding our leading global position in adhesives in 1999. We are able to cover all adhesion applications with high-performance products from what is the world's most comprehensive manufacturing program.

Consumer and Craftsmen Adhesives

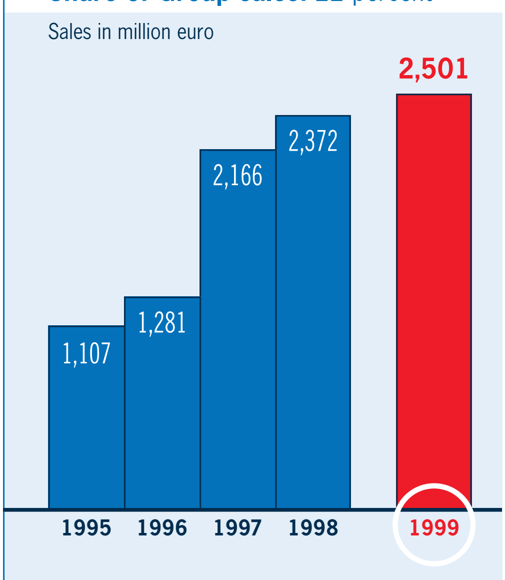
The businesses operating in the do-it-yourself sector performed very positively. The combination of innovative formulations with user-friendly packaging systems proved very effective in boosting results. The assembly adhesives ("no more nails" concept), now widely introduced on an international scale, were particularly successful within this context.

In the paper, office products and stationery market segment, the international launch of innovative roller-applicator products for correction and adhesive-bonding enabled us to further underpin our worldwide market leadership despite increasing competitor activity.

Through the Manco business acquired in the USA at the beginning of 1998, we are able to offer the European markets an attractive range of adhesive tapes, marketed under the 'Duck' brand.

Seen from the regional standpoint, we achieved good growth rates in Europe and an above-average increase in business in North America. The North American businesses of Manco, Loctite and LePage, which merged in 1999, significantly exceeded our expectations. We were also able to substantially expand sales in the Near East and Far East. In Latin America, our activities suffered from recessive economic developments, whilst in Russia the business was stabilized and further expanded. In Romania we founded a new joint venture for building chemicals.

Share of Group sales: 22 percent



Industrial and Packaging Adhesives

Our business with adhesives for labeling, packaging and the commercial art/graphics industry underwent a significant expansion. We have introduced a new range of adhesives on a worldwide basis for hygiene articles and sanitary goods. In the development of these adhesives, we were able to utilize the comprehensive know-how that has accumulated at Henkel in the field of skincare.

We succeeded in consolidating our market leadership with our solvent-free

Liofol laminating adhesives, in part by introducing new product types that exhibit improved environmental compatibility and greater application cost-efficiency.

We achieved record sales in relation to our adhesives for the wood processing industry and continued to make good progress with new solvent-free adhesive technologies for shoe sole fixing applications.

In Europe we succeeded in further improving our overall market leadership, in spite of heavy price pressure.

In Russia we have brought on stream a new production facility for packaging adhesives and wood glues near St. Petersburg, and in Egypt we have commissioned a new factory for industrial adhesives within the framework of a joint venture.

On the North American market we were able to expand our position, achieving double-digit growth in sales of industrial adhesives, especially labeling, bookbinding and wood adhesives. In Latin America, the difficult economic situation had an adverse effect on business. Performance throughout Asia was encouraging.

Engineering Adhesives (Loctite)

Our range of engineering adhesives encompasses products marketed under the brand names Loctite, Teroson and Henkel; these are used particularly in the automotive industry, electronics and machine construction. The product range includes reactive adhesives and high-performance sealants, as well as the associated automated application devices.

Electronic component manufacturing is a particularly interesting growth market for us. Owing to the fast rate of development in this segment, a particularly high level of research and development expenditure is necessary.

We succeeded in achieving significant increases in sales in Europe, North America and Asia. This applies particularly to our products for chip assembly. In Latin America, business performance was unsatisfactory owing to adverse economic conditions.

Outlook

We expect the market to provide an overall positive impetus in the year 2000. This applies particularly in the regions of Eastern Europe and Latin America where results fell short of our expectations in 1999. In the case of the engineering adhesives segment – and particularly products for the electronics sector – we consider the main growth regions to be Asia and North America. We look forward to a substantial boost to our worldwide businesses emanating from a number of planned launches in the consumer and craftsmen adhesives sector. These will be backed up by substantial international marketing activities. We also intend to make further progress in relation to our industrial and packaging adhesives through a number of innovation initiatives.

Loctite 401

The most versatile superglue in the Loctite range. The cyanoacrylate formulation bonds plastics, wood and metal surfaces within seconds to produce a strong, durable joint.

No more nails

A new assembly adhesive designed to make life easy for craftsmen and DIY enthusiasts alike.

Pritt

This world brand for solvent-free adhesion is 30 years old.

Bonacure

The Bonacure range is as much a part of the hairdresser's arsenal as the comb and scissors.

Touch

The male fragrance line by Grigio Perla has been launched onto the Italian market.

The well-known brand families of Henkel Cosmetics are international market leaders. Their potential is the basis for further profitable growth.

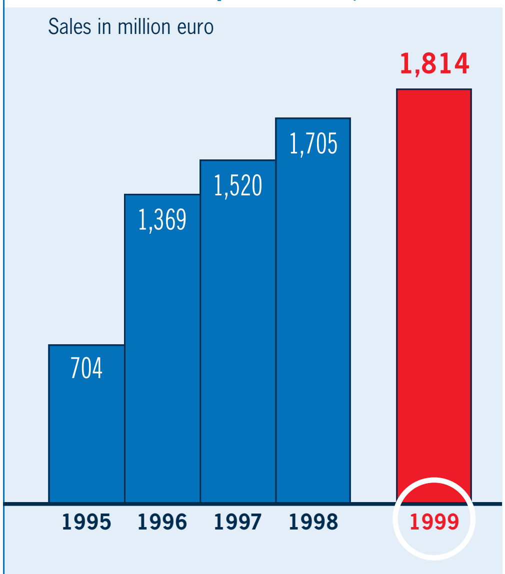
Cosmetics/Toiletries

We continued advancing the globalization of our businesses in 1999. We have taken over and further developed new businesses in India, Brazil, Chile, Turkey and the Baltic States.

In 1999, we continued aligning our product assortment to brands of international strength. With this activity and a number of new product launches, we achieved further market share gains in the year under review.

The entire material flow chain has been reengineered in order to support our market growth and accelerate our internal processes. In addition, an independent production company was established in Germany (Schwarzkopf & Henkel Production Europe) which centrally steers our international production sites.

Share of Group sales: 16 percent



Brand-name products

In hair cosmetics, we achieved a very gratifying increase in sales in 1999. The pillars of this growth were our coloration products. Also for the future, this segment has good development opportunities. With a series of successful product launches – LIVE Unlimited Colors in Germany, Austria, Sweden and France, as well as Vital Colors in Germany and Brillance in France – our colorations were able to make significant gains in terms of their European market share. The ongoing positive development of Palette in Eastern Europe supplemented these market successes.

Schauma also gained market share in Germany through the introduction of new variants. Gliss improved its market position through the launch of a new hair treatment, Thermo-Repair-Kur.

In the hair styling sector, we have completely revamped Drei Wetter Taft. The new product line – Taft Xpress – was well received by the market. In the USA, the brands DEP and L.A. Looks, market leaders in the styling gel segment, performed very well following a comprehensive review.

The body care business achieved a slight gain in 1999 despite a highly competitive market. There was a significant revival in business during the second half of the year following a somewhat sluggish start. The umbrella brand Fa consolidated its position in Europe through the introduction of new lines (Fa Men, Fa Kids) and further fragrance variants, supported by a new advertising campaign and innovative packaging designs (Fa Spraycap, Fa Deo Click). The launch in the USA, the largest cosmetics market in the world, was very promising.

We are also now represented in the Indian toiletries market by a business acquired by Henkel SPIC India. The soap brand Margo marketed there performed particularly well.

The skin care business showed good progress in sales in 1999. Newly launched, innovative products were a major contributory factor in this respect. AOK achieved its highest market share ever in Germany. Diadermine is well on its way to becoming a successful European brand following its launch in the Netherlands and further market share gains in France and Spain.

Our oral care products maintained their market position in Western Europe in 1999. All the formulations of our “2 in 1” products were improved. The Theramed range was complemented in Belgium through the addition of a toothbrush. Vademecum was expanded through the introduction of a vitamin concept.

In regional terms, we were able to further strenghten our position in Central Europe. This success resulted in particular from activities in the hair cosmetics and body care sectors that enabled us to gain market share in Germany, Austria and Switzerland. The introduction of Fa in Scandinavia brought a significant sales growth for the Henkel-Norden Group. In Russia our business underwent a revival in the second half of the year. Our businesses in Western and Southern Europe developed well overall. France, Benelux, Spain and Greece were the most important contributors of the sales growth. Sales performance in Turkey and Italy, on the other hand, fell short of our expectations.

Overseas we recorded a particularly high rate of sales growth in 1999. Decisive factors contributing to this were, in the first instance, our new businesses in North America and India, and extremely gratifying sales successes in Australia and New Zealand. In Latin America, sales were below our expectations. Market conditions in China remained difficult.

Hair salon products business

1999 was again a very successful year for our hair salon products business. The basis of this success was the revamp of the Igora Color series and an expansion of our Bonacure line of hair care products. We were able to further consolidate our market position through the introduction of innovative products.

We also made good progress with the expansion of our businesses outside Europe.

Outlook

We intend again to grow faster than the market in the year 2000.

Penetrating the European markets will continue to remain the focus of our activities in the future. In addition, we will be concentrating on expanding our business in the USA and further developing our activities in the Asia Pacific region.

The development of international brands will continue to be one of our paramount objectives. Brands with local significance will be managed in line with the results achieved, or sold where appropriate.

Live Cosmic Blue

Color and care: Poly Live is the name of this latest generation of intensive colorants from Schwarzkopf & Henkel.

Schauma

The tradition-rich brand Schauma was particularly successful in Germany in 1999.

Strong brands, high returns

With innovative product lines and uncompromising product quality, our major detergent and household cleaner brands are on the fast track to success – not only in Europe but also in markets overseas.

Svit

Chemical cleaning in the domestic tumble drier: Svit freshens up non-washable textiles.

biff fresh shower

Putting an end to droplet stains and soap remnants: biff fresh shower immediately cleans and shines without rubbing – to make tiles, faucets and shower cubicles sparkle.

Against the background of moderate market growth in Europe and difficult business conditions in Russia and China, we succeeded in further expanding our market position overall.

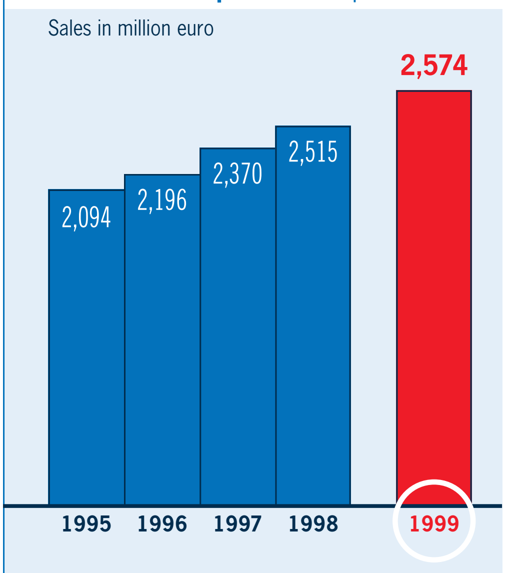
Once again there was a significant improvement in profits. This success was due in part to progress in our strident effort to reduce costs. We also saw an increase in the average selling prices of a number of products in several countries.

Detergents

In a market that is stagnating in volume terms, we were able to slightly expand our market shares overall in 1999.

While holding our position in relation to standard powders, we performed well in the growth segment of liquid products, with our market position improving as a result.

Share of Group sales: 23 percent



The introduction of our detergent tabs in all the major continental European markets proved very successful.

Aside from the major international brands of Persil and Dixan, which defended their positions well, our large national brands X-tra in France, Spee in Germany and Wipp in Spain achieved in some cases significant market share gains.

Particularly gratifying were the sales revenue improvements in France, Spain, Switzerland, Turkey, Belgium, the Netherlands, and also in Eastern Europe.

The cooperation arrangement with Dial Corporation, conducted within the framework of the newly established joint venture, covers the USA, Canada and the Caribbean. “Purex Advanced”, an enzyme-containing detergent in the medium price segment, was launched from this platform in the year under review.

In Russia our business suffered from continuing adverse economic conditions. However, our balanced brands portfolio, which covers all the main demand segments, is still bringing us benefits. Also of advantage is the fact that we have a local production capability in the form of two factories which facilitates a high degree of flexibility.

Owing to the downturn in purchasing power and production overcapacity among the detergent manufacturers in China, the market situation there remained difficult. We intend to utilize more intensively the synergies available from our four production facilities there.

Our detergents businesses in Egypt, Israel, Lebanon, Saudi Arabia and Tunisia were able to further expand their good, and in some cases leading, market positions.

As a result of acquisitions, we have further strengthened our position in India and thus achieved the critical mass necessary to ensure successful business development. Our products are now being marketed nationwide. Business results in 1999 were positive in terms of both sales and earnings.

Laundry care products

We succeeded in further extending our leading position in Europe in relation both to laundry conditioning products and the woolens/color segment. The market leadership of our international brands Vernel and Perwoll was further consolidated in continental Europe.

With the launch of innovative products and the development of new market segments, we have laid the basis for significant sales increases in the year 2000. One example is the brand "Svit" in the new market for home dry cleaning in the tumble drier. With Vernel Soft & Easy, a product that makes ironing easier, we will be bringing a new boost to the market for softeners and conditioners.

Dishwashing products and cleaning agents

In spite of the still stagnating markets and heavy competition, we achieved a double-digit percentage increase in sales in this sector. This growth was achieved in all the main segments as a result of our pan-European success in the marketing of innovative products.

In summer 1999, we launched onto the German and Austrian markets Somat "2 in 1", the world's first machine dishwashing detergent with an integrated rinsing agent. Owing to the high level of consumer acceptance that ensued, we subsequently also introduced the product onto the Italian market in November 1999.

In the hand dishwashing detergents segment, we introduced onto the market a combination of detergent and hand rinse lotion in the form of Pril "2 in 1".

Following the good performance of WC-Frisch toilet freshener, the gel concept was successfully transferred to our line of cleaning agents. The newly developed WC-Frisch-Activ Tabs were very well received by the market and will be introduced on a Europe-wide level.

Since September 1999 there is a new product available on the broad European market in the form of a new brand, Fasa Faser Deo, which bonds with, and neutralizes, odor molecules.

Outlook

We are striving to achieve an increase in our sales growth in the year 2000 as compared with 1999.

We expect a boost to growth to come from our innovative products, including the color detergent tabs launched in 1999.

The work geared toward improving our cost structure will continue. Progress in the strengthening of our central production control organization and the adoption of a global approach to material management will release and activate further synergies in the overall business process.

Vernel Soft & Easy

The new fabric conditioner that smoothes away the creases to make ironing easier.

X·TRA Tabs

National brands like X·TRA Tabs in France also profit from our technological lead in detergent product development.

Substantial improvement in systems-related business

Last year we combined the major systems-related businesses of Henkel – our European joint venture Henkel-Ecolab and Surface Technologies – within one business sector.

ECOBRITE

Complete service for laundries: The Ecobrite brand not only encompasses detergents and textile care products but also precision metering and control equipment.

P3-Oxy Foam

Hygiene is particularly vital in the dairy industry: Before milking begins the active foam of P3-Oxy Foam gently yet effectively cleans the udder of the cow.

Industrial and Institutional Hygiene

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 in Korea.

We succeeded in further increasing our share of what is a stagnating and intensely competitive market. This achievement is due to the introduction of innovative product systems, clear product improvements and a strict cost management regime.

Our regional basis has been widened through the establishment of sales subsidiaries in Croatia and the Ukraine.

The Institutional Hygiene business unit further strengthened its leading market position. The takeover of Gibson UK Ltd. in Great Britain, which Ecolab Inc. acquired in 1998 in the wake of its purchase of Gibson Chemicals Australia, contributed to this success.

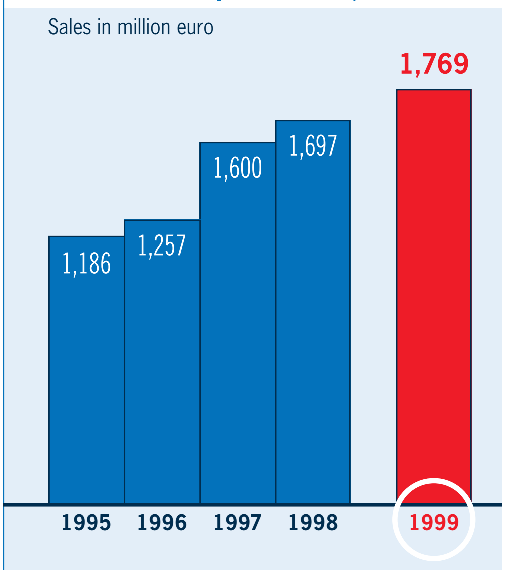
The Professional Hygiene business unit was successful throughout Europe with a service concept that integrates the machine, the chemistry and the service package. In Great Britain, we spun off our CFM business with industrial cleaning machines on the basis of a management buy-out.

In the Hospital Hygiene business in Germany, the introduction of new products, some of which are based on a patented glucoprotamine, recovered to perform very well.

The Food & Beverage / P3 Hygiene business unit was able to maintain its overall good position: With P3-oxysan, we have introduced a new generation of disinfectants for cleaning-in-place (CIP) systems in dairies, breweries, and soft drink packaging and bottling plants. It offers a superior range of antimicrobial activity. As part of a policy involving increased concentration on our core business, Zuckriegl in Austria – a company specializing in water treatment – was sold off.

The Textile Hygiene business unit is undisputed market leader in its segment. In spite of ongoing concentration amongst our customers and declining consumption volumes, we succeeded through the introduction of innovative solutions to expand our position on the system-supported side of the business. Long-term supply agreements with our European key accounts also contributed to this success.

Share of Group sales: 15 percent



Surface Technologies

In regional terms, our businesses operating in the field of surface technologies recorded mixed results in 1999. Performance was positive in Europe, North America, Mexico and Asia Pacific. Unfavorable economic influences led to decreases in sales in South America and Turkey in particular. In France, the planned integration of the surface treatment business that we acquired from CFPI in 1998 was affected by delays in obtaining the necessary official approvals.

The worldwide upward trend exhibited by our businesses in the automotive sector continued, with substantial sales growth rates and an expansion in market share. The high level of capacity utilization currently prevailing in the automotive industry, plus new products, technologies and systems, and additional sales through new joint ventures in Europe and Asia all played their part in the attainment of these successes.

In the industrial sector (non-automotive), we were able to maintain and in some cases extend our leading position in important markets. Regional setbacks due to the poor economic situation in South America, South Africa and Turkey, and strong competitive pressure in some industries nevertheless had a negative effect on sales.

In the year under review, we obtained the internationally recognized quality management system certificate from the DQS (Deutsche Gesellschaft zur Zertifizierung von Managementsystemen), so enabling us to reach our goal of achieving worldwide registration to ISO 9001. Henkel through its Surface Technologies division is the first company in Europe, and one of only three worldwide, to receive this unique award.

A number of innovative products have been developed for modern automotive construction applications. These meet the requirements voiced by customers for higher standards in relation to the safety, comfort and durability of vehicles. One of the new developments is Terocore, an ultra-light polymer foam. It reinforces the car body and improves its crash resistance, resulting in a significant advantage over conventional construction methods. Not only does it reduce the vehicle weight, it also increases its overall strength.

Outlook

In the industrial and institutional hygiene business, we shall continue to meet the challenges of the European market with problem solutions that are precisely tailored to the requirements of our customers.

Our growth rates demonstrate that we are on the right road to success. We are very confident of seeing these developments continue in coming years.

In relation to the surface technologies sector, we expect a further increase in world automobile production during the next two years. With the global alignment of our business, we consider ourselves well positioned to take advantage of this development. The trend toward lighter-weight automobile body construction is opening up new opportunities for us.

Teroson rust converter

Apply with a brush: The rust converter from Teroson transforms the rust – whether on the car or the garden fence – to a chemically stable iron compound.

Atmosit

For fast repairs of broken seals. Atmosit is a mastic filler that reliably closes cracks and uneven surfaces.

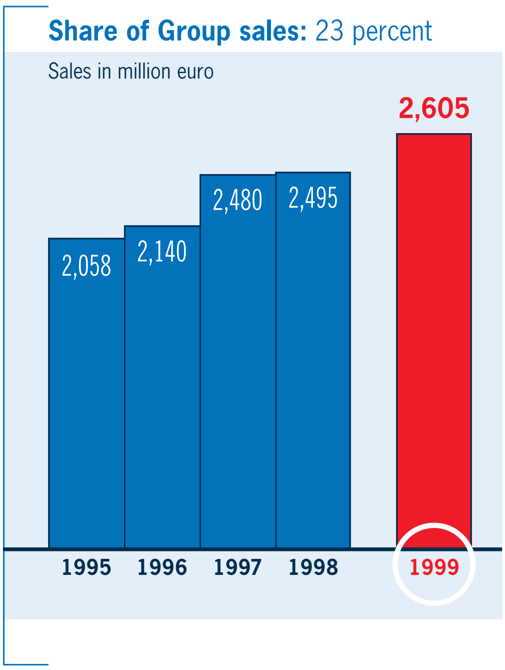
1999 saw the carve-out and legal independence of our Chemical Products business sector under the company name Cognis. This provided it with the flexibility needed to increase competitiveness.

Active ingredients

Cognis offers active ingredients based on vegetable, marine and biotechnological raw materials, predominantly for the cosmetics industry.

Business performance differed considerably between the first and second halves of 1999. While in the first six months sales fell below the level of the previous year owing to weak demand, this deficit was more than recovered during the second half of the year. Strong growth in the Asia Pacific region especially contributed to this improvement. However, the downturn in sales that occurred in Germany during the first six months was not offset by developments in the second half of the year. In the other European countries and in Latin America we achieved slight increases in revenue. Sales in North America remained at the level of 1998 thanks to positive foreign exchange influences. With the acquisition of Laboratoires Sérobiologiques, we have further strengthened our product portfolio in the specialty chemicals segment. We sold our European paper auxiliaries business.

Profit levels were affected by the one-off costs of the Cognis carve-out and other restructuring measures.



Oleochemicals

The downturn in demand in the markets for oleochemical products, which occurred around the middle of 1998, continued into the first half of 1999. Our business in Germany was particularly affected, while in Asia we were once again able to achieve gratifying growth rates with the easing of the economic crisis. Business in China developed very quickly. Overall, the substantial decline in sales in the first half of the year was almost completely offset by positive performance in the second half.

Having closed a fatty acid production plant in California with the aim of substituting inefficient production by supply from our site in Malaysia, we succeeded in improving profitability both in the USA and in Malaysia. We made further progress in our quest to strengthen our fatty alcohol business by introducing products of higher added value. We have expanded our business in unsaturated fatty alcohols and commissioned a plant for the production of specialty alcohols for polymers, fragrances and products for the cosmetics industry.

The Food Technology business unit was able to hold its position in a highly com-

Primacare

Active ingredients such as chitosan, vitamins and beta-carotene can be incorporated into formulations in capsule form.

petitive environment and profited, inter alia, from a revival of the Eastern European markets. We had to contend with a difficult market situation and tough competition in 1999 in relation to our natural antioxidants (vitamin E and carotenoids). We intend to continue with our strategy of further developing this segment, which also includes nurturing new business involving products for dietetically enhanced foods.

Care Chemicals

Following a weak first quarter, business improved in the following months. We achieved good sales increases in the skin care and active ingredients sectors. Specialty chemicals sales for haircare and personal care also improved. The performance of our base materials for detergents, dishwashing and cleaning agents in Europe was unsatisfactory due to heavy price pressure.

The acquisition of Laboratoires Sẽrobiologiques, a major manufacturer of active ingredients for high-quality cosmetics, brings an excellent extension to the specialty products range offered by the Care Chemicals division.

Organic Specialty Chemicals

We continued our business development by channeling our activities into profitable businesses that enjoy the benefits of a leading market position and global presence.

In spite of the divestment of our paper auxiliaries business, sales remained at the level of the previous year. Market-related decreases in revenue occurred particularly in the first half-year in Europe, and especially in Germany and Turkey. These shortfalls were, however, offset by strong increases in sales in North America and Asia.

Sales to paints and coatings industry increased substantially as a result of new products offerings, improved customer benefits, and the ecological advantages of more environmentally compatible solutions. Sales in plastics additives were maintained at the level of the previous year. Business involving stabilizers that contain no heavy metals expanded.

In the textile auxiliary products segment, increases in sales revenue in Asia could not fully balance the decline in sales revenue suffered by our businesses in Germany, Turkey and the USA.

Our lubricant additives business performed particularly well in the USA and Europe.

The plant care formulations segment is a growth market. Our competence in relation to surface phenomena and ecologically compatible emulsifier and defoaming systems enabled us to increase sales in this field.

In the metals extraction segment we introduced a number of process management improvements on behalf of our customers. We also developed an additional market niche with a new process for nickel extraction.

Outlook

We expect demand for chemical products to undergo a further revival. Our businesses should benefit from this development with a boost to both sales and profits.

Cognis will be further restructuring its business portfolio in order to concentrate on product groups offering especially promising growth opportunities.

Surfactant granules
Important base material for laundry detergents, dishwashing products and cleaning agents.

Events after year-end

January 2000, Düsseldorf

Henkel research adopts a new organizational structure for the purpose of further improving efficiency and transparency. Chemical and biological research are merged and the new competence platform "System Technology" is introduced as a link between research and engineering/ process technology.

Our research units are to step up their cooperation with new, visionary companies, so-called "start-ups", and the universities.

January 2000, Winsford, Great Britain

The Henkel production facility for adhesives in Winsford, Great Britain, receives the "Management Today Best Factory Award". The factory attained the silver award in the "Best Process Factory" category. More than 1,000 production sites took part in this competition.

February 2000, Hamburg, Germany

In the study "Image Profile" of the Hamburg-based "manager magazin", Henkel took first place in the category for chemical/pharmaceutical companies. 2,500 managers were asked of their opinion regarding the image of Germany's largest corporations. The factors evaluated were management capability, communications performance, growth dynamics and innovation.

March 2000, Düsseldorf, Germany

Schwarzkopf & Henkel launches the face care line "Diadermine" onto the German market. The associated products have been developed on the basis of an innovative approach, namely that of "biomimetics", which has long been the subject of dermatological research.

March 2000, Düsseldorf, Germany

Operating within the framework of a so-called "Invent-Team", seven Henkel managers have, over the last six months, been pondering possible product developments likely to occur in the next ten years in the field of detergents and household cleaners.

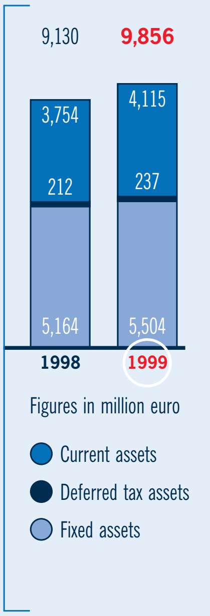
At a "Future Congress", 2,450 product ideas from 47 countries were analyzed, evaluated and catalogued as the first stage in what is to be an ongoing process.

March 2000, Roermond, Netherlands / Barcelona, Spain

Cognis Ibéria takes over the business of Hispano Química from La Seda de Barcelona. Operating in the field of specialty chemicals, Hispano Química achieved sales last year amounting to 30 million euro. The production program of Hispano Química encompasses specialties for the cosmetics, textiles, paint/coatings and leather treatment industries. Additives and auxiliaries for industrial chemical processes also form part of its product range.

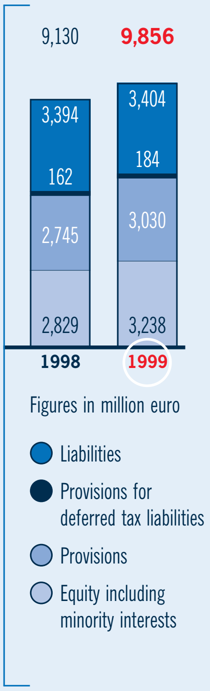
Financial Statements Henkel Group

Henkel Group Consolidated Balance Sheet



Assets

		December 31, 1998		December 31, 1999	
	Notes	EUR mill.	%	**EUR mill.**	%
Intangible assets	[1]	2,086	22.9	2,111	21.4
Property, plant and equipment	[2]	2,543	27.9	2,606	26.4
– Shares in associated companies		480	5.2	685	7.0
– Other investments		55	0.6	102	1.0
Financial assets	[3]	535	5.8	787	8.0
Fixed assets		5,164	56.6	**5,504**	**55.8**
Deferred tax assets	[4]	212	2.3	**237**	**2.4**
Inventories	[5]	1,426	15.6	1,505	15.3
Trade accounts receivable	[6]	1,784	19.6	2,022	20.5
Other receivables and miscellaneous assets	[7]	417	4.5	447	4.5
Liquid funds/Marketable securities	[8]	127	1.4	141	1.5
Current assets		3,754	41.1	**4,115**	**41.8**
Total assets		9,130	100.0	**9,856**	**100.0**



Shareholders' Equity and Liabilities

		December 31, 1998		December 31, 1999	
	Notes	EUR mill.	%	**EUR mill.**	%
Subscribed capital	[9]	373	4.1	374	3.8
Capital reserve	[10]	652	7.1	652	6.6
Revenue reserves	[11]	1,796	19.7	2,028	20.6
Unappropriated profit		119	1.3	131 *	1.3
Currency translation differences	[12]	– 370	– 4.0	– 237	– 2.4
Equity excluding minority interests		2,570	28.2	**2,948**	**29.9**
Minority interests	[13]	259	2.8	290	3.0
Equity including minority interests		2,829	31.0	**3,238**	**32.9**
Provisions for pensions and similar obligations	[14]	1,773	19.4	1,871	19.0
Other provisions	[15]	972	10.6	1,159	11.7
Provisions		2,745	30.0	**3,030**	**30.7**
Provisions for deferred tax liabilities	[16]	162	1.8	**184**	**1.9**
Borrowings	[17]	2,163	23.7	1,915	19.4
Trade accounts payable	[18]	803	8.8	1,029	10.4
Other liabilities	[19]	428	4.7	460	4.7
Liabilities		3,394	37.2	**3,404**	**34.5**
Total equity and liabilities		9,130	100.0	**9,856**	**100.0**

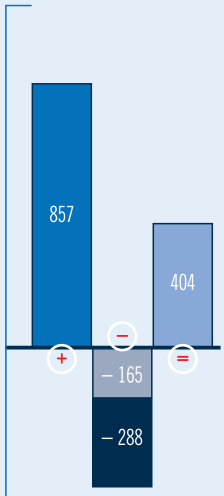
* total dividend payout proposed by Henkel KGaA

Equity ratio %		–	31.0	–	32.9
(equity including minority interests ÷ total assets)					

Henkel Group Consolidated Statement of Income

	Notes	1998 EUR mill.	1998 %	1999 EUR mill.	1999 %
Sales	[23]	10,909	100.0	**11,361**	**100.0**
Cost of sales	[24]	– 6,000	– 55.0	– 6,132	– 54.0
Gross profit		4,909	45.0	**5,229**	**46.0**
Marketing, selling and distribution costs	[25]	– 3,076	– 28.2	– 3,220	– 28.3
Research and development costs	[26]	– 250	– 2.3	– 279	– 2.5
Administrative expenses	[27]	– 658	– 6.0	– 678	– 5.9
Other operating income	[28]	150	1.4	146	1.3
Other operating charges	[29]	– 52	– 0.5	– 75	– 0.7
		1,023	9.4	**1,123**	**9.9**
Amortization of goodwill	[30]	– 132	– 1.2	– 144	– 1.3
Restructuring costs	[31]	– 100	– 0.9	– 122	– 1.1
Operating profit (EBIT)		791	7.3	**857**	**7.5**
Net income from associated companies		115	1.0	91	0.9
Net result from other participations		5	0.0	5	0.0
Net interest expense		– 267	– 2.4	– 261	– 2.3
Financial items	[32]	– 147	– 1.4	**– 165**	**– 1.4**
Earnings before tax		644	5.9	**692**	**6.1**
Taxes on income	[33]	– 272	– 2.5	**– 288**	**– 2.5**
Net earnings		372	3.4	**404**	**3.6**
Minority interests	[34]	– 36	– 0.3	– 40	– 0.4
Earnings after minority interests		336	3.1	**364**	**3.2**
Allocation to revenue reserves		– 217	– 2.0	– 233	– 2.1
Unappropriated profit		119	1.1	**131** *	**1.1**

* total dividend payout proposed by Henkel KGaA



Figures in million euro

- Operating profit 857
- Financial items – 165
- Taxes on income – 288
- Net earnings 404

Key ratios

		1998	1999
Return on equity %			
(net earnings ÷ equity including minority interests at beginning of year)		13.1	14.3
Interest coverage ratio			
(earnings before tax + net interest expense ÷ net interest expense)		3.41	3.65
Ratio of debt to cash flow 1			
(borrowings ÷ cash flow)		2.03	1.54
Ratio of debt to cash flow 2			
(borrowings + pension provisions ÷ cash flow)		3.70	3.04
Earnings per share (according to IAS) in euro	– ordinary shares	2.28	2.46
	– preferred shares	2.33	2.54

Henkel Group Segment Information (figures in million euro)

Business Sectors

	Adhesives	Cosmetics/ Toiletries	Detergents/ Household Cleaners	Industrial and Institutional Hygiene/ Surface Technologies	Chemical Products (Cognis)	Other *	Group
Sales	2,501	1,814	2,574	1,769	2,605 **	98	11,361
Change from previous year	+ 5.4 %	+ 6.4 %	+ 2.3 %	+ 4.2 %	+ 4.4 %	– 21.6 %	+ 4.1 %
Proportion of Group sales	22 %	16 %	23 %	15 %	23 %	1 %	100 %
Sales 1998	2,372	1,705	2,515	1,697	2,495	125	10,909
Operating profit before depreciation	403	217	315	241	339	– 7	1,508
Operating profit before depreciation 1998	355	200	286	203	309	22	1,375
Change from previous year	+ 13.5 %	+ 8.5 %	+ 10.1 %	+ 18.7 %	+ 9.8 %	–	+ 9.7 %
Operating profit	237	123	177	148	182	– 10	857
Operating profit 1998	204	110	165	132	162	18	791
Change from previous year ***	+ 16.5 %	+ 11.4 %	+ 7.6 %	+ 12.2 %	+ 12.0 %	–	+ 8.3 %
Return on sales	9.5 %	6.8 %	6.9 %	8.4 %	7.0 %	–	7.5 %
– Return on sales 1998	8.6 %	6.5 %	6.6 %	7.8 %	6.5 %	–	7.3 %
Return on investment	10.7 %	12.5 %	24.2 %	19.2 %	11.5 %	–	13.2 %
– Return on investment 1998	9.3 %	11.4 %	21.7 %	18.3 %	10.4 %	–	12.4 %
Depreciation/Write-ups	166	94	138	93	157	3	651
incl. amortization of goodwill	79	40	5	14	6	–	144
Depreciation 1998	151	90	121	71	147	4	584
incl. amortization of goodwill 1998	73	37	5	12	5	–	132
Capital expenditure (excl. financial assets)	101	55	117	78	118	7	476
Capital expenditure (excl. financial assets) 1998	145	69	128	95	138	7	582
Operating assets	2,734	1,428	1,313	1,140	2,051	279	8,945
Operating liabilities	527	442	579	369	467	62	2,446
Net operating assets employed	2,207	986	734	771	1,584	217	6,499
Operating assets 1998	2,678	1,378	1,324	1,083	2,002	195	8,660
Operating liabilities 1998	491	409	564	363	444	26	2,297
Net operating assets employed 1998	2,187	969	760	720	1,558	169	6,363
Research and development costs (R&D)	74	28	61	46	61	9	279
R&D as % of sales	3.0	1.5	2.4	2.6	2.3	–	2.5
Research and development costs (R&D) 1998	64	27	55	40	56	8	250
R&D as % of sales 1998	2.7	1.6	2.2	2.4	2.2	–	2.3

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

** including sales to other business sectors: 2,735 million euro

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

Henkel Group Segment Information (figures in million euro)

Geographical Regions

	Germany	Europe (other than Germany)	North America	Latin America	Africa	Asia/ Australia	Group
Sales by location of companies	3,048	4,909	1,892	446	141	926	11,361
Change from previous year	– 1.3 %	+ 4.5 %	+ 7.8 %	– 4.1 %	+ 4.4 %	+ 20.9 %	+ 4.1 %
Proportion of Group sales	27 %	43 %	17 %	4 %	1 %	8 %	100 %
Sales by location of companies 1998	3,090	4,698	1,755	465	135	766	10,909
Sales by location of markets	2,584	5,129	1,857	540	182	1,069	11,361
Change from previous year	+ 2.2 %	+ 2.0 %	+ 7.3 %	– 0.2 %	– 4.7 %	+ 19.8 %	+ 4.1 %
Proportion of Group sales	23 %	45 %	16 %	5 %	2 %	9 %	100 %
Sales by location of markets 1998	2,528	5,027	1,730	541	191	892	10,909
Operating profit	339	406	87	25	7	– 7	857
Operating profit 1998	317	385	56	22	8	3	791
Change from previous year	+ 6.9 %	+ 5.5 %	+ 55.4 %	+ 13.6 %	– 12.5 %	–	+ 8.3 %
Return on sales	11.1 %	8.3 %	4.6 %	5.6 %	5.0 %	– 0.8 %	7.5 %
– Return on sales 1998	10.3 %	8.2 %	3.2 %	4.7 %	5.7 %	0.4 %	7.3 %
Return on investment	18.6 %	19.3 %	5.9 %	7.4 %	10.6 %	– 1.0 %	13.2 %
– Return on investment 1998	17.6 %	18.1 %	3.8 %	6.8 %	10.8 %	0.5 %	12.4 %
Depreciation/Write-ups	217	225	128	24	6	51	651
incl. amortization of goodwill	33	49	43	7	1	11	144
Depreciation 1998	205	202	112	17	6	42	584
incl. amortization of goodwill 1998	33	47	35	7	1	9	132
Capital expenditure (excl. financial assets)	194	176	52	14	10	30	476
Capital expenditure (excl. financial assets) 1998	203	215	79	29	9	47	582
Net operating assets employed	1,819	2,098	1,485	338	66	693	6,499
Net operating assets employed 1998	1,800	2,126	1,448	323	71	595	6,363

Changes in fixed assets (figures in million euro)

Cost

	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 1999	**2,724**	**6,333**	**544**	**9,601**
Changes in the Group/acquisitions	84	25	– 23	86
Additions	49	428	192	669
Disposals	72	253	3	328
Reclassifications	1	– 1	–	–
Translation differences	185	314	81	580
At December 31, 1999	**2,971**	**6,846**	**791**	**10,608**

Accumulated depreciation

	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 1999	**638**	**3,790**	**9**	**4,437**
Changes in the Group/acquisitions	–	13	– 4	9
Write-ups	–	2	1	3
Depreciation and amortization 1999	212	441	1	654
Disposals	22	202	1	225
Reclassifications	–	–	–	–
Translation differences	32	200	–	232
At December 31, 1999	**860**	**4,240**	**4**	**5,104**
Fixed assets (net)				
at December 31, 1999	**2,111**	**2,606**	**787**	**5,504**
The amount charged for depreciation and amortization in 1999 comprises:				
Scheduled depreciation and amortization	206	380	–	586
Unscheduled depreciation and amortization	6	61	1	68
	212	**441**	**1**	**654**

Henkel Group Cash Flow Statement (figures in million euro)

	1998	1999
Operating profit (EBIT)	**791**	**857**
Income taxes paid	– 259	– 230
Depreciation/Write-ups of fixed assets (excl. financial assets)	584	651
Net gains from disposals of fixed assets (excl. financial assets)	– 51	– 31
Cash flow	**1,065**	**1,247**
Change in inventories	– 49	12
Change in receivables and miscellaneous assets	– 46	– 176
Changes in liabilities and short-term provisions	– 123	142
Net cash flow from operating activities	**847**	**1,225**
Capital expenditure on intangible assets	– 68	– 48
Capital expenditure on property, plant and equipment	– 494	– 428
Capital expenditure on financial assets	– 26	– 150
Acquisitions	– 375	– 76
Proceeds from disposals of fixed assets	121	132
Net cash flow from investing activities	**– 842**	**– 570**
Henkel KGaA dividends	– 104	– 119
Subsidiary company dividends (to other shareholders)	– 20	– 22
Change in borrowings	240	– 374
Interest and dividends received	94	96
Interest paid	– 286	– 224
Other financing transactions	34	– 14
Net cash flow from financing activities	**– 42**	**– 657**
Change in cash and cash equivalents	**– 37**	**– 2**
Effect of exchange rate changes on cash and cash equivalents	– 8	16
Change in liquid funds and marketable securities	**– 45**	**14**
Liquid funds and marketable securities at January 1	172	127
Liquid funds and marketable securities at December 31	127	141

Additional information on the cash flow statement in Notes 8 and 41 to the financial statements

Henkel Group 1999 Notes to the Financial Statements (figures in million euro 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.

All International Accounting Standards in force for accounting periods beginning after December 31, 1998 have been applied, as well as those due to become operative from a date in 1999.

The financial statements of companies included in the consolidation have been audited and attested by members of the KPMG organization or others instructed by them. 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 costs and amortization of goodwill are shown separately to make the financial statements more informative because the amounts involved are material.

Companies included in the consolidation

Apart from Henkel KGaA and its branch operation in Genthin, the consolidated financial statements include 48 domestic and 303 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.

86 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 investments in The Clorox Company, Oakland, California, and Ecolab Inc., St. Paul, Minnesota (both in the USA) are accounted for by the equity method.

Two domestic and 18 foreign companies have been included in the consolidated Group figures for the first time. The acquisitions were financed out of normal cash flow and bank borrowings. The most important were:

Companies included in the consolidation for the first time

Name	Group shareholding %	Acquisition cost EUR mill.	Sales EUR mill.	Number of employees	Business sector
Dial/Henkel LLC, USA	50	7	3	—	Detergents
Hong Seong Chemicals, Korea	90	8	9	8	Surface Technologies
Gibson Chemical Industries Ltd., UK	50	8	10	49	I & I Hygiene
Laboratoires Sérobiologiques S.A., France	100	32	20	30	Chemical Products (Cognis)

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

	1998 EUR mill.	**1999** EUR mill.
Fixed assets	160	77
Current assets	170	43
Liabilities	242	24

The effect of the acquisitions on net earnings was an increase of 2 million euro.

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.

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 investments accounted for 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 associated companies in the consolidated statement of income. One joint venture is included in the consolidated financial statements on a proportional basis.

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 financial statements of foreign companies included in the consolidation are translated into euro in accordance with the "functional currency" concept. As the companies included in the consolidation organize, operate and finance their activities independently, the functional currency for each company is its local currency. Assets and liabilities are translated at the mid rates at the balance sheet date, income and expense items at average rates for the year. The difference compared with using closing rates of exchange is taken to equity and shown separately as "Currency translation differences" without affecting earnings. Companies in countries with high rates of inflation draw up their financial statements either in DM or in US dollars in order to eliminate the effects of inflation. At 1998 exchange rates, net earnings for 1999 would have been 2 million euro less.

Foreign currency accounts receivable and payable in the Group are translated at hedged rates of exchange or at the closing rates. Exchange gains and losses on intra-Group debt relationships which are recognized in the individual financial statements of companies included in the consolidation are reversed in the consolidated financial statements, but realized as gains or losses when the debt relationships are reduced or redeemed.

The following exchange rates have been used for currency translation purposes:

Unit of currency

	ISO code	Average rate in euro		Closing rate in euro	
		1998*)	1999	1998*)	1999
1 British pound	GBP	1.50	1.52	1.4306	1.6116
100 Swiss francs	CHF	62.09	62.46	62.4799	62.3130
100,000 Turkish lira	TRL	0.35	0.22	0.2710	0.1835
1 Brazilian real	BRL	0.78	0.53	0.7081	0.5496
100 Japanese yen	JPY	0.69	0.83	0.7416	0.9742
100 Mexican pesos	MXN	9.93	9.81	8.6408	10.4931
1 US dollar	USD	0.90	0.94	0.8554	0.9973

*) for comparative purposes the 1998 exchange rates have been restated in euro (1 euro = DM 1.95583)

Effect of exchange rate movements

(increase in million euro)

Fixed assets	309
Inventories	80
Receivables	127
Provisions	92
Financial liabilities	208
Shareholders' equity	133

Balance Sheet Notes to the Financial Statements (figures in million euro 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:

Useful lives

	Years
Goodwill	up to 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 its outstanding international market position

[1] Intangible assets

Only assets acquired for valuable consideration are included under this heading. The additions to patents, licenses and similar rights relate to normal business activities and the companies and businesses acquired in 1999.

The increase in purchased goodwill relates to companies included in the consolidation for the first time in 1999 – mainly Laboratoires Sērobiologiques in France, Loctite-KID in Germany, and Hong Seong in Korea.

Cost

	Patents/Licenses	Goodwill	Total
At January 1, 1999	**444**	**2,280**	**2,724**
Changes in the Group/acquisitions	2	82	84
Additions	48	1	49
Disposals	9	63	72
Reclassifications	15	– 14	1
Translation differences	8	177	185
At December 31, 1999	**508**	**2,463**	**2,971**

Accumulated amortization

At January 1, 1999	**260**	**378**	**638**
Changes in the Group/acquisitions	–	–	–
Amortization 1999	68	144	212
Disposals	7	15	22
Reclassifications	11	– 11	0
Translation differences	5	27	32
At December 31, 1999	**337**	**523**	**860**
Book values (net) at December 31, 1999	**171**	**1,940**	**2,111**

Property, plant and equipment [2]

The values of property, plant and equipment 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
At January 1, 1999	**1,776**	**3,394**	**966**	**197**	**6,333**
Changes in the Group/acquisitions	8	11	4	2	25
Additions	50	152	113	113	428
Disposals	47	97	96	13	253
Reclassifications	41	106	7	– 155	– 1
Translation differences	104	179	29	2	314
At December 31, 1999	**1,932**	**3,745**	**1,023**	**146**	**6,846**

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
At January 1, 1999	**768**	**2,329**	**690**	**3**	**3,790**
Changes in the Group	3	8	2	–	13
Write-ups	–	2	–	–	2
Depreciation 1999	71	247	121	2	441
Disposals	25	84	90	3	202
Reclassifications	– 2	4	– 1	– 1	0
Translation differences	33	147	20	0	200
At December 31, 1999	**848**	**2,649**	**742**	**1**	**4,240**
Book values (net)					
At December 31, 1999	**1,084**	**1,096**	**281**	**145**	**2,606**

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.

Depreciation is charged over the periods of estimated useful life shown in the table on page 48. Assets of low value are written off in full in the year when they are acquired.

Scheduled depreciation of 380 million euro was charged in 1999 (see also the depreciation table on page 44) (1998: 368 million euro), plus unscheduled depreciation of 61 million euro (1998: 25 million euro) owing to reduced utilization of capacity and plant closures.

Assets held by the Group under the terms of finance leases are included in property, plant and equipment at a total value of 32 million euro. They are included at the present value of the lease payments and depreciated on a scheduled basis. The commitments for future payments are shown as liabilities.

[3] Financial assets

Financial fixed assets are shown at cost or at their lower actual value. Our associates The Clorox Company and Ecolab Inc. are accounted for by the equity method in the consolidated financial statements at the appropriate proportion of their net assets.

We calculate our percentage shareholding on the basis of shares outstanding. The updated net asset figure is also translated on the basis of the "functional" currency, so the equity values are translated at the mid rate of exchange in force on the balance sheet date. The stock market value of our participations at December 31, 1999 amounted to 4,415 million euro (1998: 4,050 million euro).

The values of financial assets have changed as follows:

Cost

	Affiliated companies	Shares in associated companies	Other investments	Total
At January 1, 1999	**46**	**481**	**17**	**544**
Changes in the Group/acquisitions	– 23	–	–	– 23
Additions	16	123	53	192
Disposals	– 1	–	– 2	– 3
Reclassifications	–	–	–	–
Translation differences	–	81	–	81
At December 31, 1999	**38**	**685**	**68**	**791**

Accumulated write-downs

	Affiliated companies	Shares in associated companies	Other investments	Total
At January 1, 1999	**9**	**–**	**–**	**9**
Changes in the Group/acquisitions	– 4	–	–	– 4
Write-ups 1999	1	–	–	1
Write-downs 1999	– 1	–	–	– 1
Disposals	– 1	–	–	– 1
Reclassifications	–	–	–	–
Translation differences	–	–	–	–
At December 31, 1999	**4**	**–**	**–**	**4**
Book values (net)				
at December 31, 1999	**34**	**685**	**68**	**787**

Additions totaling 123 million euro under shares in associated companies include 77 million euro in respect of goodwill.

[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.

Inventories [5]

Inventories

	Dec. 31, 1998	**Dec. 31, 1999**
Raw materials and supplies	432	456
Work in process	162	180
Finished products and merchandise	824	861
Payments on account of merchandise	8	8
	1,426	**1,505**

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 to the appropriate level accordingly. Manufacturing cost includes, in addition to direct costs, appropriate proportions of overheads (e.g. the goods inwards department, raw materials store, filling and other costs prior to the finished product store) and administrative expenses and pension costs attributable to the production process, as well as 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 (which in the case of finished products is derived from their market value) totaled 60 million euro at December 31, 1999.

Trade accounts receivable [6]

Trade accounts receivable

	Dec. 31, 1998	**Dec. 31, 1999**
Trade accounts receivable	1,784	**2,022**

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 accounts which are 180 days overdue to be provided for in full. A total of 45 million euro has been provided in the form of valuation allowances.

Other receivables and miscellaneous assets [7]

Other receivables and miscellaneous assets

	Dec. 31, 1998	**Dec. 31, 1999**
Accounts receivable from affiliated companies	10	6
(including those with a residual term of more than 1 year)	(–)	(–)
Accounts receivable from other companies in which participations are held	7	10
(including those with a residual term of more than 1 year)	(–)	(–)
Miscellaneous assets	360	386
(including those with a residual term of more than 1 year)	(67)	(85)
Deferred charges	40	45
	417	**447**

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 (91 million euro), amounts receivable from employees (22 million euro) and suppliers (25 million euro), insurance claims (10 million euro), security and guarantee deposits (27 million euro), and payments made on account (26 million euro).

The debt discount (2 million euro) 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

Liquid funds and marketable securities

	Dec. 31, 1998	**Dec. 31, 1999**
Liquid funds	116	131
Marketable securities	11	10
	127	**141**

The marketable securities are valued at quoted market prices. Price movements are recognized in the statement of income under financial items.

Shareholders' equity

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

Equity excluding minority interests

	Ordinary shares	Preferred shares	Capital reserve	Revenue reserves	Unappropriated profit	Translation differences	Total
At January 1, 1999	**221**	**152**	**652**	**1,796**	**119**	**– 370**	**2,570**
Earnings after minority interests					364		364
Allocation to reserves				233	– 233		–
Conversion to euro	1			– 1			–
Exchange rate differences						133	133
Distributions					– 119		– 119
At December 31, 1999	**222**	**152**	**652**	**2,028**	**131** *	**– 237**	**2,948**

* total dividend payout proposed by Henkel KGaA

[9] Subscribed capital

The subscribed capital totals 374 million euro. 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 26 million euro 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 5 million euro 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 to be 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.

Subscribed capital

	Dec. 31, 1998	**Dec. 31, 1999**
Ordinary bearer shares	221	222
Non-voting preferred bearer shares	152	152
Capital stock	373	**374**
Divided into:		
86,598,625 ordinary shares		
59,387,625 preferred shares		

Capital reserve [10]

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

Revenue reserves [11]

The revenue reserves amount to 2,028 million euro. They include:
– amounts allocated in the financial statements of Henkel KGaA in previous years;
– amounts allocated from consolidated net earnings of the Group;
– the earnings of consolidated companies less the interests of minority shareholders therein;
– changes in consolidation items and in the composition of the Group which affect earnings;
– the effect of conversion to the euro.

Currency translation differences [12]

Differences on translation of the annual financial statements of foreign companies are shown under a separate heading as part of shareholders' equity. Owing to the exchange rate strength of the US dollar, the Japanese yen and the British pound, the total under this heading was 133 million euro less than at the end of 1998.

Minority interests [13]

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

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

Changes

	Balance Jan. 1, 1999	Special circumstances	Utilized	Released	Allocated	**Balance Dec. 31, 1999**
Provisions for pensions and similar obligations	1,773	32	– 50	–	116	**1,871**
Tax provisions	285	27	– 52	– 11	105	**354**
Sundry provisions	687	20	– 584	– 53	735	**805**
	972	47	– 636	– 64	840	**1,159**

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 (1998: 3.0 percent) for wages and salaries, 1.5 percent (1998: 1.5 percent) for retirement benefits, and a discount rate of 6 percent (1998: 6 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:

Breakdown of pension and similar obligations

	Germany	USA	Rest of world	Total
Present value of obligations not covered by fund assets	1,531	115	107	1,753
Present value of obligations covered by fund assets	72	372	141	585
	1,603	487	248	**2,338**
Market value of fund assets	– 46	– 257	– 136	– 439
Miscellaneous	–	–	5	5
	1,557	230	117	**1,904**
Unrecognized actuarial gains/losses	– 36	–	+ 3	– 33
Provisions for pensions and similar obligations	1,521	230	120	**1,871**

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).

A total of 101 million euro has been charged under pension costs (Note 37 below) and 92 million euro under financial items (Note 32).

The “Special circumstances” column comprises the effects of changes in the composition of the Group and exchange rate movements.

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

Sundry provisions

	Dec. 31, 1998	**Dec. 31, 1999**
Sales and marketing	168	177
Personnel	199	236
Production and technology	89	106
Administration	231	286
	687	**805**

The sundry provisions are in respect of identifiable potential liabilities towards third parties. They are costed in full and discounted to the balance sheet date if they include interest.

[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.

Borrowings [17]

This heading includes all interest-bearing obligations of the Henkel Group outstanding at December 31, 1999, 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:

Borrowings

	Dec. 31, 1998			Residual term	**Dec. 31, 1999**
	Total	more than 5 years	between 1 and 5 years	up to 1 year	**Total**
Bonds	1,032	261	132	452	845
Participating certificates	24	–	14	5	19
Participating loans	67	67	–	–	67
Loans from employee welfare funds of the Henkel Group	32	19	–	10	29
(including amounts secured)	(–)				(–)
Bank loans and overdrafts	566	30	43	477	550
(including amounts secured)	(28)				(25)
Other financial liabilities	442	15	9	381	405
	2,163	392	198	1,325	**1,915**

Bonds represent the largest single item of borrowings. The main bonds are as follows:

Bonds

Issued by	Type	Denominated currency	Equivalent value in million euro	Interest rate	Interest rate fixed
Henkel KGaA	Bond	CHF	127	3.500	2001 [1]
Henkel Corporation	Convertible bond	DEM	77	2.000	2003 [1]
Henkel Corporation	Eurobonds	DEM	153	5.375	2004 [1]
Henkel Corporation	Commercial paper program	USD	217	6.000	1–3 months [2]
Henkel KGaA	Commercial paper program	DEM	145	3.522	1–3 months [3]

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

[3] multi-currency program; foreign currencies hedged by currency swaps

The convertible bond for 77 million euro issued by Henkel Corporation includes a call option. During the period from June 12, 2000 to May 23, 2003 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 euro.

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

The bonds include a convertible warrant bond for the equivalent of 3 million euro issued on December 8, 1997, and similar bonds for the equivalent of 1 million euro each issued on July 1, 1998 and July 1, 1999 in connection with the introduction of a Stock Incentive Program 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 executives included in this stock incentive program have the right to acquire new preferred shares of Henkel KGaA. The subscription prices depend on 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.

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 nor in the balance sheet of Henkel KGaA at December 31, 1999 for the option warrants issued under the stock incentive program to date.

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

As Henkel's preferred shares did not outperform the DAX index in the second half of 1999, the subscription rights attached to the bond issued in December 1997 have lapsed as worthless. The rights attached to the bonds issued in July 1998 and July 1999 cannot be exercised until the first stock exchange trading day following the Annual General Meetings of Henkel KGaA to be held in 2001 and 2002 respectively.

Option rights

	Management Board	Other executive personnel	Total beneficiaries
At January 1, 1999	**230,130**	**1,093,793**	**1,323,923**
1997 issue lapsed	– 169,260	– 815,239	– 984,499
1999 issue added	62,220	299,818	362,038
At December 31, 1999	**123,090**	**578,372**	**701,462**

[18] Trade accounts payable

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

Other liabilities [19]

Other liabilities

	Dec. 31, 1998 Total	Residual term more than 5 years	between 1 and 5 years	up to 1 year	**Dec. 31, 1999 Total**
Accounts payable to affiliated companies	18			30	30
Accounts payable to other companies in which participations are held	9			13	13
Liabilities in respect of taxation	89			98	98
Liabilities in respect of social security	37			41	41
Sundry liabilities including deferred income	275	36	52	190	278
(including amounts secured)	(–)				(–)
	428	36	52	372	**460**

Sundry liabilities include liabilities to customers (23 million euro), commission payable (12 million euro), payroll taxes etc. for employees (29 million euro), liabilities towards employees (73 million euro) and advance payments received (6 million euro).

Contingent liabilities [20]

Contingent liabilities

	Dec. 31, 1998	**Dec. 31, 1999**
Bills and notes discounted	18	14
Liabilities under guarantees and warranty agreements	6	8
Collateral	2	1

Other financial commitments [21]

The amounts shown are the nominal values.

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 property, plant and equipment, and potential liabilities in respect of payments on shares not yet called up, the consolidated total for the Group at the end of 1999 was 256 million euro.

Payment commitments under the terms of agreements for capital increases and share purchases signed prior to December 31, 1999 amounted to 4 million euro.

[22] Financial derivatives

Derivative financial instruments

		Notional principal amounts		Market values
at December 31	1998	**1999**	1998	**1999**
Forward exchange contracts	1,693	1,260	5	– 27
(proportion for hedging financing arrangements within the Group)	(1,513)	(906)	(4)	(– 23)
Currency options	51	61	0	0
Cross currency swaps	357	357	17	– 13
Interest rate hedging instruments	726	774	– 31	1
	2,827	**2,452**	– 9	**– 39**

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 39 million euro 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 the underlying 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. Provisions are not necessary for these either. 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 negative market values of the cross currency swaps are counterbalanced by corresponding positive market values of the underlying bond instruments.

All the relevant activities are centrally coordinated by the 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:

Interest rates

	Notional principal amount expressed in million euro	Average remaining period to maturity in years	Average interest rate %
DEM	273	1.5	5.4
FRF	46	3.8	6.0
USD	812	2.9	6.4

Sales [23]

A breakdown of sales by business sector and geographical region compared with the previous year is shown in the tables on pages 42 and 43.

The Cosmetics/Toiletries and Detergents/Household Cleaners sectors previously combined under "Brand-name products" are shown separately for the first time. In the course of structural changes the Surface Technologies and Industrial and Institutional Hygiene business sectors have been combined.

Cost of sales [24]

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).

Marketing, selling and distribution costs [25]

These include the costs of the marketing organization, of distribution, advertising and market research, and of applications advisory services for customers, as well as amounts written off accounts receivable.

Research and development [26]

This heading comprises the costs of research and of product and process development. Research and development costs were expensed in full as incurred. The risks involved in the time to market mean that development costs incurred by our business sectors cannot be carried forward.

Administrative expenses [27]

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

Other operating income [28]

Other operating income

	1998	**1999**
Gains on disposal of fixed assets	51	31
Income from release of provisions	38	32
Income from release of bad debt reserves	3	4
Other operating revenue	58	79
	150	**146**

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

The increase in 1999 is attributable in particular to increased gains from the sale of trademark rights and from the divestment of activities as part of the process of streamlining our business portfolio.

Other operating charges [29]

Other operating charges 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. The 1999 figure also includes an amount allocated to a provision for the compensation fund for the victims of the Nazis' forced labor regime.

Amortization of goodwill [30]

The increase in the amortization charge on goodwill is mainly due to acquisitions, but also to exchange rate movements.

[31] Restructuring costs

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

	1998	**1999**
Net income from associated companies	115	**91***

Net result from other participations

	1998	**1999**
Income from participations		
in affiliated companies	6	–
in other companies	3	4
Income from profit and loss transfer agreements	1	1
Gains on disposal of financial assets and marketable securities	0	1
Write-downs on financial assets and marketable securities	– 5	– 1
	5	**5**

Net interest expense

	1998	**1999**
Interest and similar income		
from affiliated companies	–	–
from others	19	16
Other financial income	16	17
Interest charges payable		
to affiliated companies	– 9	– 7
to others	– 180	– 151
Other financial charges	– 29	– 44
Interest element of amounts allocated to pension provisions	– 84	– 92
	– 267	**– 261**
Financial items (net)	– 147	**– 165**

* After deducting a special charge of 36 million euro in connection with our participation in The Clorox Company. This is Henkel's share of the cost of restructuring the First Brands acquisition (treated by Clorox as an extraordinary item in its own financial statements).

Taxes on income [33]

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.

Taxes on income

	1998	**1999**
Estimated tax charge at an average tax rate of 41 percent	264	284
Tax reduction owing to tax-free income and other items	– 90	– 94
Tax increases owing to non-deductible expenses and other items	98	98
Taxes based on supplementary assessments	0	0
Total tax charge	272	**288**
comprising: current taxes	242	277
comprising: deferred taxes	30	11
Effective tax rate %	42.3	**41.6**

Minority interests [34]

The amount shown here represents the share of profits and losses attributable to other shareholders. The share of profits amounted to 58 million euro (1998: 49 million euro) and of losses 18 million euro (1998: 13 million euro).

Depreciation and amortization expense [35]

Henkel Group

	1998	**1999**
Scheduled depreciation and amortization on property, plant and equipment and intangible assets	552	586
Unscheduled depreciation and amortization on property, plant and equipment and intangible assets	32	67
Write-downs on financial assets	4	1
	588	**654**

The increase in scheduled depreciation compared with the comparable figure for the previous year is mainly due to the acquisitions made in 1999.

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.

Cost of materials [36]

Henkel Group

	1998	**1999**
Cost of raw materials and supplies and of goods purchased for resale	4,364	4,225
Cost of outside services	271	424
	4,635	**4,649**

[37] Payroll costs

Henkel Group

	1998	**1999**
Wages and salaries	1,747	1,848
Social security contributions and social assistance	370	369
Pension costs	81	101
	2,198	**2,318**

In October 1999, to mark Henkel's 100th year in Holthausen, we purchased 9,294 preferred shares of Henkel KGaA at an average price of 60.335 euro (a total of 561 thousand euro). These shares have been issued free to all those – including members of the Management Board – who were employed by Henkel KGaA in Holthausen at July 1, 1999 under an open-ended employment contract, provided they had not given or been given notice and had not chosen to take the equivalent value in cash instead of shares. Henkel KGaA did not hold any of its own shares at December 31, 1999.

The proportion of Henkel KGaA's capital attributable to its own shares purchased amounted to 0.0064 percent, representing nominal capital of 24 thousand euro.

[38] Employee numbers

Annual average excluding apprentices, work experience students and trainees.

Henkel Group

	1998	**1999**
Production and technology	25,506	25,246
Marketing, sales and distribution	17,403	17,492
Research, development and applications technology	3,658	3,810
Administration	9,724	10,072
	56,291	**56,620**

[39] Value added

Value added statement

	1998	%	**1999**	%
Net sales/Other income	11,219	100.0	11,641	100.0
– Cost of materials	4,635	41.3	4,649	39.9
– Fixed asset depreciation/write-ups	588	5.2	652	5.6
– Other expense	2,801	25.0	2,986	25.7
= Value added	3,195	28.5	3,354	28.8
Shared between				
Employees	2,198	68.8	2,318	69.1
Government	318	10.0	336	10.0
Providers of capital	307	9.5	296	8.8
Shareholders	119	3.8	131*	4.0
Minority interests	36	1.1	40	1.2
Retained in the business	217	6.8	233	6.9

* proposed

Information on earnings per share [40]

Earnings per share

	1998	**1999**
Earnings after minority interests	336	364
Dividends paid or proposed		
– on ordinary shares	69	76
– on preferred shares	50	55
Profit retained	217	**233**
Number of ordinary shares	86,598,625	86,598,625
EPS in euro	2.28	**2.46**
Number of preferred shares	59,387,625	59,387,625
EPS in euro	2.33	**2.54**

The stock incentive program (see Note 17) does not currently result in any dilution in earnings.

Supplementary information on the cash flow statement [41]

The 1999 acquisitions figure includes purchase prices paid (79 million euro) plus borrowings taken over (2 million euro) less cash and cash equivalents taken over (5 million euro).

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

Related party transactions [42]

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

Information required by § 292a HGB [43]

The conditions required by § 292a(1) of the German Commercial Code (HGB) for Henkel KGaA's consolidated financial statements to be drawn up in accordance with International Accounting Standards (IAS) are fulfilled.

The only accounting policies applied by Henkel which are different from those required under German company law are insignificant in amount and relate to:

- the recognition of translation differences in the statement of income, and
- the recognition as an asset of tax losses carried forward.

Consolidated net earnings have been only marginally increased by currency translation differences taken to income as a result of foreign currency receivables and payables being translated at the closing year-end rates of exchange.

Tax losses carried forward are recognized as deferred tax assets in accordance with prudent commercial judgment only if there is evidence on the basis of business plans or tax planning calculations that they will be utilized.

[44] Emoluments of corporate management

The total emoluments paid to members of the Supervisory Board for the 1999 fiscal year (including value added tax taken over) amounted to 409 thousand euro (1998: 521 thousand euro, including value added tax taken over and back-payments for previous years); those paid to members of the Shareholders' Committee 1,074 thousand euro (1998: 982 thousand euro). The personally liable managing Partners and other members of the Management Board received remuneration totaling 8,557 thousand euro for the year under review (1998: 7,588 thousand euro).

Members of the Management Board have been granted 62,220 option warrants under the terms of the Stock Incentive Program (see Note 17) in 1999. These warrants represent an estimated value of 47 thousand euro at the balance sheet date.

34,083 thousand euro (1998: 33,889 thousand euro) 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 3,875 thousand euro (1998: 3,108 thousand euro).

Amounts totaling 107 thousand euro 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 1999 shown under the heading "Miscellaneous assets" amounted to 368 thousand euro, including 256 thousand euro advanced to personally liable Partners. The loans, which for the most part are secured by mortgages, are for terms of up to 5 years and are subject to interest at the base rate of the European Central Bank (currently 1.95 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 annual financial statements of Henkel KGaA be approved as presented and that the amount of 516,770,817.37 euro be allocated to revenue reserves out of the net earnings figure of 1,033,541,634.74 euro.

The personally liable Partners, the Shareholders' Committee and the Supervisory Board recommend that the unappropriated profit of 516,770,817.37 euro for the year ended December 31, 1999 be applied as follows:

1. Payment of a dividend of 0.87 euro per ordinary share to which a tax credit of 3/7ths is attached (on 86,598,625 shares ranking for dividend) = 75,340,803.75 euro.
2. Payment of a dividend of 0.93 euro per preferred share to which a tax credit of 3/7ths is attached (on 59,387,625 shares ranking for dividend) = 55,230,491.25 euro.
3. Allocation of the remaining balance of 386,199,522.37 euro to revenue reserves.

Düsseldorf, March 2, 2000

The personally liable managing Partners of Henkel KGaA

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

The Shareholders' Committee

Albrecht Woeste
Chairman

Principal subsidiary companies *

Europe

	Share of capital %	Sales EUR mill.	Sharehold-ers' equity EUR mill.	Earnings before tax EUR mill.	Employees Dec. 31
Henkel-Ecolab Joint Venture Companies	50 % + 1 vote	874	209	78	4,716
Cognis Deutschland GmbH, Düsseldorf, Germany	100	1,026	102	53	1,998
Hans Schwarzkopf GmbH & Co. KG, Hamburg, Germany	100	103	148	18	406
Grünau Illertissen GmbH, Illertissen, Germany	100	150	44	10	536
Henkel Benelux Group, Brussels, Belgium, and Nieuwegein, Netherlands	100	371	371	23	883
Henkel France Group, Boulogne-Billancourt, France	100	674	140	61	1,389
Cognis France S.A., Ponthierry, France	100	178	35	7	396
Henkel Ltd., Hatfield, Great Britain	100	192	60	13	697
Henkel S.p.A., Milan, Italy	100	654	207	21	1,591
Henkel Central Eastern Europe Group, Vienna, Austria	100	665	202	52	3,999
Henkel Nordic Group, Stockholm, Sweden	100	148	54	3	505
Henkel & Cie AG, Pratteln, Switzerland	100	103	43	9	204
Henkel Ibérica Group, Barcelona, Spain	80	650	172	40	2,040
Henkel Turyag A.S., Izmir, Turkey	100	121	2	– 1	400
Cognis Turkey A.S., Istanbul, Turkey	100	126	51	6	491

Overseas

Henkel Mercosul Group, São Paulo, Brazil	100	266	201	7	1,723
Cognis Mexicana, incl. Centroamericana	100	138	74	12	891
Henkel South Africa Group, Alrode, South Africa	50	49	21	– 1	522
Henkel of America Group, Gulph Mills, Pennsylvania, USA	100	1,498	1,364	54	3,889
Henkel Asia Pacific Group, Hong Kong	100	800	443	– 27	7,811
Loctite Group, Hartford, Connecticut, USA	100	760	516	41**	4,291

* showing the head office location of each company

** after charging acquisition financing costs

Major Participations in Associated Companies

The Clorox Company, Oakland, California, USA

Product groups:
Bleaching agents, household and automotive care products, processed foods

Henkel owns 62.8 million shares in The Clorox Company, representing a participating interest of 26.6 percent. Henkel and Clorox also have a technology transfer agreement. The collaboration with Clorox extends to the exchange of formulations, marketing concepts and test methods. There is also a cooperation arrangement in some countries for the production and marketing of household bleaching agents. The Clorox Company has a 20 percent shareholding in Henkel Ibērica S.A.

Fiscal 1998/99 (accounting period to June 30, 1999) was dominated by the integration of the First Brands Corporation. The previous year's figures of Clorox have been restated to include the results of First Brands. On that basis sales revenue rose by 3 percent to US$ 4,003 million. Net earnings were 28 percent down at US$ 246 million. Excluding the costs of integrating First Brands, net earnings for the period increased by 14 percent to US$ 390 million. The shareholders' equity in the company at June 30, 1999 amounted to US$ 1,570 million.

For the first half of its current 1999/2000 fiscal year (the six-month period to December 31, 1999) Clorox reported a slight drop of 1 percent in sales to US$ 1,896 million. Net earnings amounted to US$ 163 million after allowing for further costs of restructuring First Brands; this represents a decrease of 6 percent compared with the comparable period of the previous year.

Clorox's share price went down by 13.8 percent in 1999. The market value of our participation as of December 31, 1999 amounted to US$ 3,166 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 32.2 million shares in Ecolab Inc., representing a participating interest of 24.9 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.

Ecolab Inc.'s sales recorded 10 percent growth in 1999 to US$ 2,080 million. Operating earnings improved by 14 percent from US$ 155 million in the previous year to US$ 176 million. The shareholders' equity in the company at the year end amounted to US$ 762 million. The share price of Ecolab went up by 8 percent in 1999. The market value of our participation as of December 31, 1999 totaled US$ 1,261 million.

Management Statement

The personally liable managing 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.

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.

Management is committed to delivering a steady increase in shareholder value.

The management of the Group is attuned to the interests of shareholders in full awareness of its responsibility towards employees, society and the environment in every country in which Henkel operates.

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. 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 a meeting of the Supervisory Board held for that purpose. The report of the Supervisory Board is reproduced on page 69.

The personally liable managing Partners of Henkel KGaA

Düsseldorf, March 2, 2000

Auditors' Report

We have audited the consolidated financial statements prepared by Henkel KGaA for the year ended December 31, 1999, consisting of the consolidated balance sheet as of that date and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements. The preparation and content of the consolidated financial statements are the responsibility of the personally liable managing Partners of Henkel KGaA. Our responsibility is to express an opinion, based on our audit, as to whether the consolidated financial statements comply with International Accounting Standards (IAS).

We conducted our audit of the consolidated financial statements in accordance with German audit regulations and the standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) generally accepted in Germany, having due regard also for International Standards on Auditing (ISA). Those standards require that we plan and perform the audit so as to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

Knowledge of the business activities and of the economic and legal environment of the Henkel Group, together with the potential for possible errors, are taken into account in the determination of audit procedures. 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 applied and significant estimates made by the personally liable managing Partners, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group and of its cash flows for the year under review and comply with IAS.

Our audit, which included an examination of the Group management report prepared by the personally liable managing Partners, revealed no grounds for objections. In our opinion the Group management report gives a true picture of the Group's position overall and a fair representation of the risks and uncertainties that may affect its future performance.

We confirm that the consolidated financial statements and Group management report for the year ended December 31, 1999 meet the requirements for exempting the Company from having to prepare consolidated financial statements and a Group management report under German company law.

Düsseldorf, March 3, 2000

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Ulrich Maas
Wirtschaftsprüfer

Michael Gewehr
Wirtschaftsprüfer

Report of the Supervisory Board

During the year under review the Supervisory Board has fulfilled the responsibility of monitoring and advising the Management Board incumbent upon it by law and under the Company's statutes. The Management Board has kept the Supervisory Board fully informed about the business affairs of the Company by means of quarterly written reports and at four meetings of the Supervisory Board. The sales and earnings figures of the Henkel Group as a whole and of each business sector and geographical region have been reported on a regular basis, as well as the research, technology and investment activities of the Group.

Topics discussed with the Management Board at meetings of the Supervisory Board included the carve-out of the Chemical Products business sector and the formation of the Cognis group, as well as matters relating to the organization of the Management Board and reorganization of the Henkel Group in Europe. The annual and five-year budget projections were presented to the Supervisory Board in detail. Henkel's position in Central and Eastern Europe and the brand-name products business in North America were also high on the agenda.

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 the Supervisory Board.

The financial statements and the combined management report for the year ended December 31, 1999, 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 delivered a report on the main findings 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 21, 2000

The Supervisory Board
Albrecht Woeste
(Chairman)

Corporate Management

Dr. Dr. h.c. Konrad Henkel † (Honorary Chairman of the Henkel Group until April 24, 1999)

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
(until December 31, 1999)

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. Dr. h.c. mult. Heinz Riesenhuber
Former Federal Minister
for Research and Technology

Heinrich Thorbecke
Private Banker

Michael Vassiliadis
Executive Secretary of
IG Bergbau, Chemie, Energie
(German Mining, Chemicals and
Energy Trade Union)

Bernhard Walter
Chairman
of Dresdner Bank AG

Jürgen Walter
Member of the
Executive Committee of
IG Bergbau, Chemie, Energie
(German Mining, Chemicals
and Energy Trade Union)

Brigitte Weber
Member of the Works Council
of Henkel KGaA
(since January 1, 2000)

Dr. Anneliese Wilsch-Irrgang
Chemist
Representative of the Senior
Staff of Henkel KGaA

Shareholders' Committee

Albrecht Woeste
Chairman
Owner of R. Woeste Group

Christoph Henkel
Vice Chairman
Business Executive

Dr. Jürgen Manchot
Vice Chairman
Chemist

Stefan Hamelmann
Owner of Franz Hamelmann
Baugesellschaft mbH and Franz
Hamelmann Projekt GmbH
(since May 3, 1999)

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

Walter Huneke
Private Investor
(until May 3, 1999)

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

Dr. Christa Plichta
Physician

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

Burkhard Schmidt
Managing Director of Jahr
Vermögensverwaltung GbR
(since June 23, 1999)

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

John Knudson
USA

Alois Linder
Spain

Dr. Jean-Pierre de Montalivet
France

Rolf Münch
Switzerland

Dr. Can Paker
Turkey

Gerhard Schlosser
Japan

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**	Industrial and Institutional Hygiene/ Surface Technologies/Human Resources **Dr. Roland Schulz***	Finance/Logistics **Dr. Ulrich Lehner* Dr. Jochen Krautter**
Deputy Chief Executive Officer **Dr. Ulrich Lehner***	Cosmetics/Toiletries **Prof. Dr. Uwe Specht***	Chemical Products **Dr. Harald Wulff** (until September 30, 1999)	Detergents/Household Cleaners **Dr. Klaus Morwind***

* Personally Liable Managing Partner

Operating Management of Henkel KGaA

Dr. Franz-Josef Acher

Jean-Christophe Babin
(since July 1, 1999)

Pierre Brusselmans

Gunter Effey

Jean Fayolle

David Freeman
(until May 31, 1999)

Dr. Wolfgang Gawrisch

Heinrich Grün
(since June 1, 1999)

Wolfgang Haumann

Dr. Jochen Heidrich
(until July 31, 1999)

Dr. Peter Hinzmann
(since September 1, 1999)

Dr. Paul Hövelmann
(until July 31, 1999)

Jörg Koppenhöfer

Robert A. Lurcott
(since October 1, 1999)

Dr. Jürgen Maaß

Dr. Angela Paciello

Isabelle Parize

Dr. Michael Schulenburg
(until July 31, 1999)

Jürgen Seidler

Joachim Söhngen
(May 1, 1999 to July 31, 1999)

Dr. Lothar Steinebach

Dr. Antonio Trius
(until July 31, 1999)

Gabriele Weiler

Knut Weinke

Management Board of Cognis B. V. (from December 1, 1999)

Chief Executive Officer **Dr. Harald Wulff**	Organic Specialty Chemicals **Dr. Jochen Heidrich**	Oleochemicals **Dr. Paul Hövelmann**
Manufacturing World and President Cognis Deutschland GmbH **Dr. Michael Schulenburg**	Finance **Joachim Söhngen**	Care Chemicals **Dr. Antonio Trius**

Further information

Henkel provides a wide-ranging information service with publications, CD-ROMs and Internet pages. The topics available extend from the concise report entitled "Safety, Health, Environment" to information on research, and from our Corporate Guidelines to our Principles and Objectives of Environmental Protection and Safety.

Environmental declarations of individual sites are also available as are historic and summarized information booklets covering various aspects of the Group.

Please send your requests for information (by fax, email or Internet) to:

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

Henkel Group Ten-Year Summary (figures in million euro unless stated otherwise)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Sales	6,144	6,598	7,210	7,090	7,193	7,259	8,335	10,259	10,909	11,361
Operating profit	351	389	348	281 [5]	343	371	517	702	791	857
Earnings before taxes on income	352	379	318	299	346	389	454	1,001	644	692
Net earnings	219	227	206	197	237	250	284	320 [7]	372	404
Cash flow	615	676	714	738	659 [6]	639	729	1,040 [8]	1,065	1,247
– as % of sales	10.0	10.3	9.9	10.4	9.2	8.8	8.7	10.1	9.8	11.0
Total assets	4,685	5,069	5,121	5,305	5,362	5,941	7,311	8,905	9,130	9,856
Fixed assets	2,302	2,449	2,699	2,804	2,786	3,351	4,012	5,040	5,164	5,504
Current assets										
(incl. deferred tax)	2,383	2,620	2,422	2,501	2,576	2,590	3,299	3,865	3,966	4,352
Debt	2,661	2,990	3,372	3,428	3,281	3,741	4,786	6,061	6,301	6,618
Shareholders' equity [1]	2,024	2,079	1,748 [4]	1,877	2,081	2,200	2,525	2,844	2,829	3,238
– as % of total assets	43.2	41.0	34.1 [4]	35.4	38.8	37.0	34.5	31.9	31.0	32.9
Net return on sales (%) [2]	3.6	3.4	2.9	2.8	3.3	3.4	3.4	5.6	3.4	3.6
Return on equity (%) [3]	12.3	11.6	11.2	11.6	12.8	12.3	12.5	13.1 [9]	13.1	14.3
Dividend per ordinary share (in euro)	0.33	0.36	0.36	0.36	0.46	0.54	0.61	0.69	0.79	0.87 [10]
Dividend per preferred share (in euro)	0.49	0.51	0.51	0.51	0.56	0.59	0.66	0.74	0.84	0.93 [10]
Total dividends	56	60	60	60	74	82	93	104	119	131 [10]
Borrowings ÷ cash flow	1.25	1.26	1.57	1.36	1.19	1.69	1.93	1.85	2.03	1.54
Borrowings ÷ shareholders' equity (%)	38.0	40.9	64.0	53.6	37.6	49.2	55.6	67.7	76.5	59.1
Capital expenditure	513	692	1,123	502	515	1,078	833	2,127	979	746
Investment ratio (%)	8.3	10.5	15.6	7.1	7.2	14.9	10.0	20.7	9.0	6.6
Research and development costs	191	205	212	206	189	189	197	238	250	279
Number of employees (annual average)										
– Germany	16,182	18,687	17,635	16,617	15,313	14,684	15,473	15,138	15,257	15,065
– Abroad	22,028	23,353	24,561	23,853	25,277	27,044	30,904	38,615	41,034	41,555
Total	38,210	42,040	42,196	40,470	40,590	41,728	46,377	53,753	56,291	56,620

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) 576 million euro 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)

10) proposed

Calendar

Annual General Meeting
of Henkel KGaA
Monday, May 8, 2000
10:00 a.m.
CCD Congress Center, Düsseldorf

Publication of Quarterly Report
on January through March 2000
Thursday, May 11, 2000

Publication of Interim Report
on January through June 2000
Monday, August 14, 2000

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

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

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

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

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

Henkel