PUBLIC RECORD VERSION

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

COMMISSIONERS: **Deborah Platt Majoras, Chairman**
Pamela Jones Harbour
Jon Leibowitz
William E. Kovacic
J. Thomas Rosch

In the Matter of

THE PROCTER & GAMBLE COMPANY,
a corporation;

and

THE GILLETTE COMPANY,
a corporation.

Docket No. C-4151
File No. 051-0115

PETITION OF THE PROCTER & GAMBLE COMPANY FOR APPROVAL OF PROPOSED DIVESTITURE

Pursuant to Section 2.41(f) of the Federal Trade Commission ("Commission" or "FTC") Rules of Practice and Procedure, 16 C.F.R. § 2.41(f) (2005), and Paragraph II.A. of the final Decision and Order approved by the Commission in the above-captioned matter, The Procter & Gamble Company ("P&G") hereby files this Petition for Approval of Proposed Divestiture ("Petition") requesting the Commission's approval of the divestiture of the APDO business, including Right Guard, Soft & Dri, Dry Idea, Natrel Plus, and Balance ("the APDO Assets") of The Gillette Company ("Gillette"), to The Dial Corporation ("Dial"), a subsidiary of Henkel KGaA ("Henkel").

I. INTRODUCTION

On September 23, 2005, P&G and the Commission entered into an Agreement Containing Consent Orders, including an initial Decision and Order and an Order to Maintain Assets. On October 1, 2005, pursuant to an Agreement and Plan of Merger between P&G and Gillette dated January 27, 2005, P&G completed its acquisition of Gillette. After a period of public comment, on December 15, 2005, the Commission issued its final Decision and Order ("Order") (with minor changes) and Order to Maintain Assets (without changes) (collectively, the "Consent Agreement"). At the same time it reissued its Complaint (also without changes).

Paragraph V.19 of the Commission's Complaint alleges that the acquisition by P&G of the APDO Assets would substantially lessen competition in the United States market for men's antiperspirants/deodorants because the acquisition would significantly increase the concentration level in the market, leaving P&G as the leading supplier. Paragraph IV.A. of the Order requires P&G to divest the APDO Assets within 120 days from the date the Order becomes final to a buyer approved by the Commission.

On February 20, 2006, Gillette and Dial executed an Asset Sale and Purchase Agreement (including attachments, exhibits, annexes, and schedules) (collectively, the "Agreement") for the sale of the APDO Assets. As part of the transactions contemplated by the Agreement, P&G and Dial will execute a Transitional Supply Agreement and a Transitional Services Agreement (collectively, the "TSSA") for provision of transitional supply and services by P&G to Dial. A copy of the Agreement is attached hereto as Confidential Exhibit A.

P&G desires to complete the proposed divestiture of the APDO Assets as soon as possible following Commission approval. Prompt consummation will further the purposes of the Decision and Order and is in the interests of the Commission, the public, P&G, Dial, and Henkel because it will allow Dial and Henkel to move forward with their plans for the competitive operation of the divested business, and it will allow P&G to fulfill its obligations under the Consent Agreement. P&G accordingly requests that the Commission promptly commence the period of public comment pursuant to Section 2.41(f)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(2), limit the public comment period to the customary thirty-day period, and grant this Petition by approving the divestiture of the APDO Assets to Dial pursuant to the proposed agreement as soon as practicable after the close of the public comment period.

This Petition describes the principal terms of the Agreement by which P&G proposes to divest the APDO Assets to Dial and explains why the Agreement satisfies the objectives and requirements of the Consent Agreement by establishing a strong and effective competitor in the sale of men's antiperspirants/deodorants in the United States.

II. REQUEST FOR CONFIDENTIAL TREATMENT

Because this Petition and its attachments contain confidential and competitively sensitive business information relating to the divestiture of the APDO Assets, P&G has redacted such confidential information from the public version of this Petition and its attachments.[1] The public disclosure of this information would prejudice P&G, Dial, and Henkel, could cause harm to the ongoing competitiveness of the APDO Assets, and could impair P&G's ability to comply with its obligations under the Consent Agreement.

Pursuant to Sections 2.41(f)(4) and 4.9(c) of the Commission's Rules of Practice and Procedure, 16 C.F.R. §§ 2.41(f)(4), 4.9(c), P&G requests, on its own behalf and on behalf of Dial and Henkel, that the confidential version of this Petition and its attachments and the information

[1] For the convenience of maintaining the public record, P&G is submitting two versions of this Petition: a confidential version that contains confidential and proprietary information and documents necessary for the Commission to assess this Petition, and a redacted version that excludes confidential and proprietary information for placement on the public record.

contained therein be accorded confidential treatment under 5 U.S.C. § 552 (2000) and Section 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2). The confidential version of this Petition is also exempt from disclosure under Exemptions 4, 7(A), 7(B), and 7(C) of the Freedom of Information Act, 5 U.S.C. §§ 552(b)(4), (b)(7)(A)-(C), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. § 18a(h) (2000).

III. THE PROPOSED ACQUIRER

Paragraph IV.A of the Order requires P&G to divest the APDO Assets within 120 days from the date the Order becomes final. Pursuant to this requirement, P&G has diligently sought an acquirer that would be acceptable to the Commission, and, in its compliance reports previously filed with the Commission on November 8, 2005, December 7, 2005, and January 6, 2006, P&G has provided a full description of its efforts to divest the APDO Assets.

According to the 2003 *Statement of the Federal Trade Commission's Bureau of Competition on Negotiating Merger Remedies* (the *Merger Remedies Statement*), to be an acceptable buyer, a divestiture acquirer must be financially and competitively viable. The acquirer must be able—with the package of assets to be divested—to maintain or restore competition in the relevant market. Key factors to consider in this analysis are whether the proposed acquirer has (1) the financial capacity and incentives to acquire and operate the package of assets, and (2) the competitive ability to maintain or restore competition in the marketplace.

As discussed in more detail below, Henkel and Dial have both the financial capacity and the incentives to acquire and operate the APDO Assets and also the competitive ability to maintain or restore competition with respect to APDO sales in the United States. Henkel's and Dial's satisfaction of these key factors demonstrates that they are an acceptable acquirer suitable for approval by the Commission.

A. Henkel and Dial Have the Financial Ability To Successfully Complete the Transaction and Invest in the APDO Assets on a Going-Forward Basis

Henkel is ranked #470 in the 2005 Fortune Global 500 list of the world's largest corporations,[2] with global revenues for fiscal 2005 of 11,974 million euros (more than $14 billion). It has the financial capacity, resources, and incentives to acquire the APDO Assets and ensure their continued operation as a viable, ongoing business. Henkel has operations in 125 countries and employs around 50,000 people. According to its 2005 Annual Report, the company has access to substantial assets including liquid funds and marketable securities valued at over $1.2 billion.[3] Henkel's current financial condition provides great flexibility in making additional investments in the business, as such investments may become necessary or propitious in the future.

Henkel is an established company with significant experience in the personal care category with its hair care, skin care, oral care, bath and shower, soap, deodorant, and fragrance products. And, the profitability of the APDO Assets—[CONFIDENTIAL MATERIAL REDACTED]—will provide even greater flexibility for Henkel and Dial to invest in and expand the men's antiperspirants/deodorants business in the United States.

B. Henkel and Dial Have and Will Acquire the Necessary Industry Experience, Customer Relationships, and Knowledge of the Divestiture Assets To Operate the Business Successfully, as Henkel and Dial Are Established and Integrated Producers and Marketers of Personal Care Products

The Bureau of Competition's 1999 *Study of the Commission's Divestiture Process* (the *Divestiture Study*) discusses several factors that help to identify an acceptable divestiture buyer. Specifically, the *Divestiture Study* cites the buyer's experience in the relevant industry and knowledge of the assets to be purchased as key to a successful divestiture.

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[2] Henkel's corporate headquarters is located in Düsseldorf, Germany.

[3] A copy of Henkel's 2005 Annual Report, issued February 14, 2006, is attached as Exhibit B to this Petition. Henkel's quarterly and annual reports are available online at http://financialreports.henkel.com.

Henkel has been committed to the personal care business since its founding in 1876 by Fritz Henkel in Düsseldorf, Germany. Henkel is one of the top-ten producers worldwide in cosmetics and toiletries with such brands as Fa, Vision, Diadermine, Taft, Schwarzkopf, and Dep, and holds the number three market position worldwide in the detergents and household cleaners market, with brands such as Persil, Dixan, Vernel, and Bref.

On March 29, 2004, Dial became a wholly owned subsidiary of the Henkel Group. Dial is organized into four core business units: Personal Care, Laundry Care, Home Care, and Food Products. Dial® soap, the company's namesake product, is America's number one antibacterial soap, with nearly 1 million bars sold a day. Other brands under the Dial banner include Coast®, Tone®, Pure & Natural®, Purex® laundry detergent (the number two selling detergent in the United States), and Renuzit® (one of the leading U.S. air fresheners). Henkel also acquired the got2B® line of hair care, bath and body products from Amitee Cosmetics Inc., complementing its long-standing Schwarzkopf & Henkel brands including L.A. LOOKS® and Dep®.. Together with Henkel's consumer adhesives portfolio (with leading brands like Loctite®, Duck Tape®, and LePage®), North America now represents nearly one-fourth of Henkel's sales.

A key element in Dial's future growth is the development of innovative new products. During the past few years, Dial has launched new Dial Complete® Antibacterial Foaming Hand Wash, Dial® 2 in 1 Body Wash & Shave Cream and Dial® Daily Care Body Washes and Liquid Hand Soaps. Tone® introduced Tone® Lotion and Body Butter. Renuzit® has introduced Super Odor Neutralizer®, Roller Scents®, a long lasting bathroom deodorizer, and Airlets®, a long lasting and discreet air freshener that plugs into electrical outlets. Dial's Purex® brand has introduced Zout® Laundry Stain Remover liquid and spray.

The APDO Assets strongly complement Henkel's and Dial's existing consumer products business in the North America. Right Guard antiperspirants and deodorants will prove a natural addition to Henkel's strong portfolio of personal care consumer brands like Dial®. The APDO business will be able immediately to take advantage of Henkel's and Dial's distribution structure, customer relationships, and marketing and advertising infrastructure.

The APDO Assets also should benefit from Henkel's expertise in research, development, and marketing of antiperspirants and deodorants outside the United States. Since about 1970, Henkel has successfully expanded its European toiletry brand Fa® from soaps to include lines of deodorants, shower gels, and bubble baths. Henkel holds leading positions in the European personal cleansing and deodorant markets through its international brand Fa® and a strong portfolio of local brands such as La Toja®, bac®, and Neutromed®.

C. Henkel Has The Competitive Ability To Maintain Or Restore Competition In The Marketplace

The *Merger Remedies Statement* suggests that the proposed acquirer have an "economic incentive to maintain or restore competition in the relevant market." The *Divestiture Study* emphasizes the importance of the buyer's commitment (*i.e.*, substantial investment in the relevant business). Given Henkel's relevant experience in personal care products, Henkel is fully qualified to operate the APDO Assets in a manner that will maintain or restore competition in the marketplace. The Henkel management and employees are experienced in the production and marketing of personal care products, including deodorants. Furthermore, all of the assets needed to operate the APDO Assets competitively will be included as part of the sale to Dial. As such, it is not anticipated that this acquisition will generate a need for substantial capital to develop the APDO Assets in the near term.

In parallel with its acquisition of Dial, Henkel explicitly stated its intention of strengthening its portfolio of brand-name consumer products in North America. The addition of Right Guard, one of the leading North American brands of men's antiperspirant and deodorant products, is a natural next step. It provides an excellent fit with Henkel's strategic plans for growth into further segments of the personal care business and for a more balanced regional presence. Henkel's long history and extensive experience with similar products in Europe, coupled with the Dial infrastructure and expertise in North America, provide Henkel the perfect platform for expansion. Henkel is well positioned to maintain and expand the APDO Assets' customer relationships as a strong competitor in the marketplace immediately. Throughout the years of constant growth and expansion, Henkel has proven that, with the necessary intellectual property and innovation, it is capable of successfully entering into new businesses.

IV. THE APDO ASSETS

Dial will be acquiring an established business with a proven record of innovative development and application as a supplier of antiperspirants and deodorants.

The APDO Assets include the leading men's antiperspirant and deodorant brand, Right Guard, along with women's brands Soft & Dri, Dry Idea, and non-U.S. brands Balance (Columbia) and Natrel Plus (UK). Right Guard commands the second largest share in the male U.S. antiperspirant/deodorant category in 2004 and has been a major contributor to the development of the category over time. With widespread distribution in the United States, United Kingdom, and Canada, Right Guard has solid channel distribution and strong brand equity, providing significant opportunities for future growth.

In a category in which brand name is very important in the consumer's purchase decision, Right Guard's brand equity is extremely powerful. Right Guard's technological strength, combined with superior product performance, has generated impressive brand equity that is augmented by ongoing investment in world-class advertising. Within the men's antiperspirants/deodorants category, Right Guard is one of the most recognized brands today. Right Guard product offerings cover most significant product forms, including gels, roll-ons, sticks/solids and aerosols. The brand competes at a range of price points and is strongly positioned to effectively participate in the premium-priced segment, the fastest-growing segment within the category. Right Guard has some of the most clinically efficacious products in the male antiperspirants/deodorants category and is sold in all major trade channels. The premium-priced Xtreme sub-brand and the mid-priced Sport sub-brand leverage the equity of the overall Right Guard umbrella and differentiate themselves via distinctive technology.

The Soft & Dri and Dry Idea female brands enjoy high levels of consumer awareness and strong distribution in the United States, Canada, and select Latin American countries. Both brands utilize several of the formulations and innovations featured in Right Guard and serve as female complements to Right Guard in merchandising and promotional activities. Given their ability to add manufacturing and promotional scale, and the limited investment required to support the brands, Soft & Dri and Dry Idea are efficient contributors to the portfolio's top- and bottom-lines.

Antiperspirants and deodorants are considered necessary personal care purchases by 92 percent of teenagers and adults in North America and the United Kingdom. Driven by this near-universal penetration in developed regions, the category delivers stable and predictable unit growth. Globally, sales of antiperspirants and deodorants are estimated at $10.5 billion and are projected to grow at an annual rate of 3.1 percent over the next five years, driven primarily by increased product use in various developing locales and by changing consumer demand. In particular, increased consumer willingness to pay more for new products that deliver value-added benefits (such as fragrance or innovative packaging) has led to recent dollar value growth in the premium-priced segment of the category. Success in this increasingly important segment is driven by three main factors: brand strength, clinically tested and/or perceived product efficacy and overall consumer satisfaction.

Given its strong brand presence and loyal customer base, Right Guard is well positioned to capitalize on this category growth. Right Guard was the second-most widely used APDO brand marketed towards males in North America on a value basis in 2004, with an approximate 18 percent share. It benefits from strong brand equity, a meaningful asset given the importance that brand name plays in the consumer's antiperspirant/deodorant purchase decision. For over forty years, the distinctive Right Guard logo has been a valuable branding mechanism in the personal care aisles of retailers, mass merchandisers, and drug stores. Right Guard was one of the first deodorant brands and, as such, has helped shape the development of the category over the last four decades. A very impressive history of innovation, best in class technology and a long-standing investment in world-class advertising have helped to further build Right Guard's equity.

The APDO Assets maintain healthy distribution levels with key national and regional retailers. Right Guard is distributed by the nation's top retailers including Wal-Mart, Kmart, Target, CVS, Walgreens, Rite Aid, Brooks, Longs, Safeway, Kroger, and Sam's Club. The brand's vast distribution network, strong history of innovation and effective marketing provide it with strong product placement, shelf-space, and merchandising opportunities. Right Guard products are usually placed at eye-level and benefit from significant shelf facings. Soft & Dri and Dry Idea products are likewise widely distributed in the United States and Canada. Similar to their male counterparts in the portfolio, retailers reward both female brands' strong equity with prominent shelf-positioning.

The APDO Assets have achieved gross margins of [CONFIDENTIAL MATERIAL REDACTED] in recent years. For 2004, gross profits were [CONFIDENTIAL MATERIAL REDACTED] on worldwide net sales of [CONFIDENTIAL MATERIAL REDACTED]. Overall, the APDO Assets experienced [CONFIDENTIAL MATERIAL REDACTED] annual net sales growth from 2002 to 2004. Growth is expected to continue, powered by the repositioning of the Right Guard brand, which is already in its final stages and ready for the purchaser to reap the full benefit.

The APDO Assets include the equipment necessary for the production of Right Guard, Soft & Dri, and Dry Idea, from the manufacturing facility in Andover, Massachusetts as well as molds located at third-party contract manufacturers (collectively, the "Equipment"). P&G will also provide transition services to facilitate the removal and transfer of the Equipment to Dial's facility without disruption to the business, including the transfer of the line that manufactures the Power Stripe products, which require a unique, specially designed filling process.

Pursuant to paragraph III of the Order to Maintain Assets, P&G has retained an Interim Monitor to supervise P&G and Gillette's compliance with the divestiture and asset maintenance obligations and related requirements. The Interim Monitor, Mr. Edward A. Gold of PricewaterhouseCoopers LLP, was vested with all powers and authorities required to oversee P&G's maintenance of the APDO Assets.

V. THE AGREEMENT

Pursuant to the *Merger Remedies Statement*, the divestiture agreement must convey all assets required to be divested and must not contain any provisions inconsistent with the terms of the Commission's order or with the remedial objectives of the order. The *Merger Remedies Statement* also provides that, in evaluating the terms of the divestiture agreement, the Commission staff will rely, in large part, on the acquirer.

The Agreement conveys all assets required to be divested and does not contain any provisions inconsistent with the terms of the Consent Order or its remedial objectives. Pursuant to the Agreement, Gillette has agreed to sell and Dial has agreed to purchase all rights, title, and interest to the APDO Assets for the purchase price of [CONFIDENTIAL MATERIAL REDACTED].

As set forth in more detail in the Agreement, the key acquired assets and rights include (as these terms are defined in the Agreement): (i) the Books and Records; (ii) any Contract and Supply Contract; (iii) the APDO Manufacturing Equipment; (iv) the Product Intellectual Property, except the Product Licensed Intellectual Property; (v) a non-exclusive, perpetual, irrevocable, fully paid-up and royalty free license(s) with rights to sublicense to all Product Licensed Intellectual Property; and (vi) any goodwill primarily related to the Business. The raw materials and inventories of the current APDO products will be sold at the end of the TSSA. These assets, including product supply and services that P&G will provide to Dial pursuant to the TSSA, constitute all the assets and services that are necessary for Dial to conduct the APDO business immediately following the closing in all material respects in the same manner as it is currently conducted by Gillette.

The TSSA and the Agreement between P&G and Dial provide, as required by Paragraph II of the Order, that:

- P&G will provide Dial with the opportunity to enter into employment contracts with the APDO Core Employees during the Access Period, will not interfere with the hiring or employing by Dial of any such employees, and will remove any impediments within the control of P&G that may deter these employees;
- P&G will provide written notification of the restrictions on the use by P&G's personnel of the Confidential Business Information related to the APDO Products;
- Upon reasonable notice and request by Dial, P&G will make available to Dial, at no greater than Direct Cost, such additional personnel, assistance and training as Dial might reasonably need for the complete transfer of the APDO Assets;
- Upon reasonable notice and request from Dial, P&G shall provide, in a timely manner, at no greater than Direct Cost, assistance of knowledgeable employees of P&G to assist Dial to defend against, respond to, or otherwise participate in any litigation related to the Intellectual Property.

Thus, the Agreement fully complies with and satisfies the purposes of the Consent Agreement.

VI. CONCLUSION

The proposed divestiture of the APDO Assets to Dial and Henkel will accomplish fully the purposes of the Consent Agreement and remedy any alleged increase of concentration in the sale of men's antiperspirant/deodorant products in the United States as a result of P&G's acquisition of Gillette.

Dial and Henkel will be a strong and effective competitor with the financial ability to successfully complete the transaction and invest in the antiperspirant/deodorant business on a going-forward basis. As established and integrated producers and marketers of personal care products, Dial and Henkel have the necessary industry experience, customer relationships, and knowledge of the APDO business to operate the U.S. operations successfully. Furthermore, Dial will be acquiring an established business requiring no additional management expertise. Finally, as a leading company in the manufacture and sale of personal care products, Dial and Henkel have the competitive ability to maintain or restore competition in the marketplace. Accordingly, P&G respectfully requests that the Commission approve the proposed divestiture as soon as possible.

Dated: February 24, 2006

Respectfully submitted,

By: Montgomery Kosma

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EXHIBITS ENCLOSED

Exhibit A	Asset Sale and Purchase Agreement Between The Gillette Company and The Dial Corporation [CONFIDENTIAL MATERIAL REDACTED]
Exhibit B	Henkel KGaA Annual Report 2005

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CONFIDENTIAL EXHIBIT A

Asset Sale and Purchase Agreement Between The Gillette Company And The Dial Corporation

(Accorded confidential treatment under 5 U.S.C. § 552 (2000) and Section 4.10(a)(2) of the Federal Trade Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2) (2005))

[CONFIDENTIAL INFORMATION REDACTED]

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EXHIBIT B

Henkel KGaA Annual Report 2005

Annual Report 2005

A World of Innovation

Henkel

A Brand like a Friend

Henkel Group: Financial Highlights

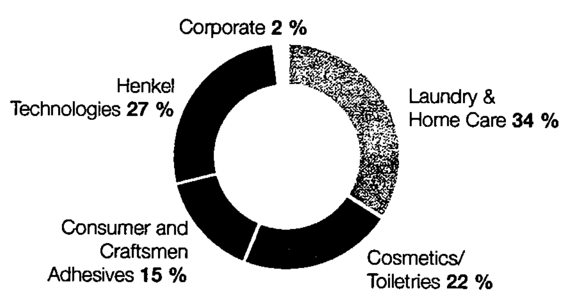
in million euros		restated and comparable 2004	2005	+/–
Sales		10,592	11,974	13.0 %
Operating profit (EBIT)		996	1,162	16.7 %
Return on sales (EBIT)	in %	9.4	9.7	0.3 pp
Net earnings		748	770	2.9 %
Earnings after minority interests		747	757	1.3 %
Earnings per preferred share	in euros	5.24	5.31	1.3 %
Return on capital employed (ROCE)	in %	13.0	13.3	0.3 pp
Capital expenditures on property, plant and equipment		344	393	14.2 %
Research and development costs		272	324	19.1 %
Employees (annual average)	number	49,947	51,724	3.6 %
Dividend per ordinary share	in euros	1.24	1.30[1]	4.8 %
Dividend per preferred share	in euros	1.30	1.36[1]	4.6 %

[1] proposed

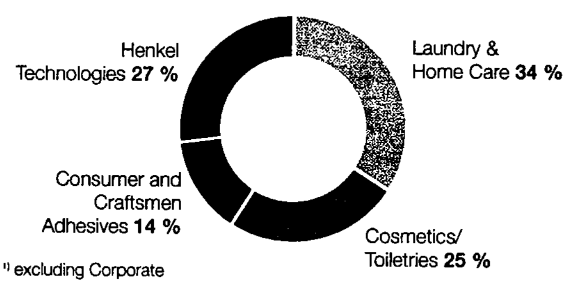
pp = percentage points

2004 restated: The figures for 2004 have been restated owing to the retroactive application of IFRS 2 (Share-based Payment). In addition, actuarial gains and losses have also been set off in full against equity in accordance with IAS 19.93A, and this standard too has been applied retroactively effective January 1, 2004.
2004 comparable: Effective fiscal 2005, scheduled goodwill amortization ceases to be applicable. The figures for 2004 have been adjusted accordingly to render them more readily comparable. Accounting changes implemented at our associate Ecolab Inc., St. Paul, Minnesota, USA, have also been applied to the 2004 figures for better comparability.

2005 sales by business sector

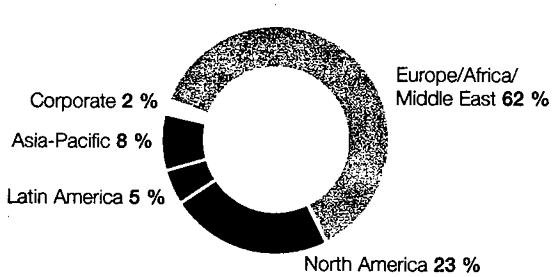


2005 EBIT by business sector[1]

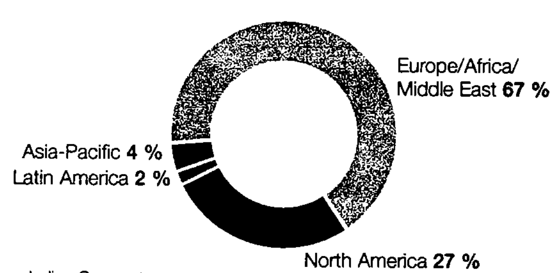


[1] excluding Corporate

2005 sales by region



2005 EBIT by region[1]



[1] excluding Corporate

Business Sectors at a Glance

Laundry & Home Care

- Leading positions worldwide
- Expanding our world market position from a strong European and North American base

Key financials in million euros

		restated and comparable 2004	2005
Sales		3,617	4,088
Operating profit (EBIT)		350	433
Return on sales (EBIT)	in %	9.7	10.6
Return on capital employed	in %	14.8	13.6

Cosmetics/Toiletries

- Leading positions worldwide
- Tapping further growth potential with innovative products

Key financials in million euros

		restated and comparable 2004	2005
Sales		2,477	2,629
Operating profit (EBIT)		290	321
Return on sales (EBIT)	in %	11.7	12.2
Return on capital employed	in %	14.0	14.7

Consumer and Craftsmen Adhesives

- Leading the world in our markets
- Driving growth through innovation and acquisitions
- Aiming to further expand, particularly outside Europe

Key financials in million euros

		restated and comparable 2004	2005
Sales		1,446	1,742
Operating profit (EBIT)		169	185
Return on sales (EBIT)	in %	11.7	10.6
Return on capital employed	in %	19.3	15.6

Henkel Technologies

- World market leader
- Offering solutions based on extensive know-how of our customers' processes and effectively tailored product development
- Developing new applications and growth potential in all regions of the world

Key financials in million euros

		restated and comparable 2004	2005
Sales		2,791	3,266
Operating profit (EBIT)		298	345
Return on sales (EBIT)	in %	10.7	10.6
Return on capital employed	in %	13.2	14.7

2005 Highlights

- New products Bref Multi-Degrease, Persil Freshness by Silan, Pril Power Spray, Sil Oxi Perfect 2, WC Frisch FreshSurfer
- Acquisitions
  March 2005
  Biopon brand, Hungary

€ 4,088 m
sales

2005 Highlights

- New products BC Bonacure hairtherapy, Diadermine Wrinkle Expert 3D, Fa Yogurt, got2b, Poly Color Retoucher, Taft LYCRA® Flex[1], Theramed Perfect Whitening Pen

12.2 %
return on sales (EBIT)

[1] LYCRA® is a registered trademark of INVISTA.

2005 Highlights

- New products Pattex Removable Assembly Adhesive, Pattex Repair Express Monodose, Pritt EasyStart Adhesive Tape, Pritt Comfort Correction Roller, Sista Adhesive and Joint Sealant
- April 2005
  Chemofast ramcord GmbH, Willich, Germany
  June 2005
  Polybit Industries Ltd., Sharjah, UAE
  September 2005
  European sealants business for DIY and the professional trades sector from Rhodia, Lyon, France

+20.5 %
sales growth

2005 Highlights

- New products Multicore LF318 Lead-Free Solder Paste, Purmelt Dual Cure, Terokal 5074 Crash Resistant Structural Adhesives, Terophon 8200 series
- February 2005
  Converter Adhesives & Chemicals Pvt. Ltd. (CAC), Mumbai, India
  November 2005
  Huawei Electronics & Co. Ltd., Lianyungang, China

14.7 %
return on capital employed

Innovation happens as we turn our thoughts to the unknown. Hence we have made it our objective to imagine the wishes and desires of our customers even before they themselves are aware of them. We have the creativity and execution excellence to translate these predictive insights into innovative products. Ours is a world of innovation, a world designed to make people's lives easier, better and more beautiful. In all regions, in all business sectors – with the **Quality from Henkel.**

Contents

Albrecht Woeste
...holders' Committee and of the Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman of the Management Board

Dear Shareholders,

We are pleased to inform you that 2005 was a successful year for Henkel. We generated profitable growth and significantly expanded our market positions. Our businesses performed well in a world exhibiting widely differing regional developments. Sluggish economic recovery in Western Europe contrasted with the economic growth in North America, Latin America and the Asia-Pacific region. And increasing energy and raw material prices brought added burdens.

The key facts and figures for our 2005 financial year can be summarized as follows:

- Sales rose by 13.0 percent to 11,974 million euros with all our business sectors and regions contributing to the increase.
- Organic sales (i.e. the figure after adjusting for foreign exchange and acquisitions/divestments) grew by 3.5 percent.
- Operating profit (EBIT) increased by 16.7 percent to 1,162 million euros.
- Return on capital employed improved slightly by 0.3 percentage points to 13.3 percent.
- Comparable earnings per preferred share increased to 5.31 euros from 5.24 euros in the previous year.
- The Management Board, the Shareholders' Committee and the Supervisory Board will propose at the Annual General Meeting a dividend payout of 1.36 euros per preferred share and 1.30 euros per ordinary share.

These facts and figures reflect our unerring vision and determination to achieve leading positions in our markets with brands and technologies that make people's lives easier, better and more beautiful.

Our success in this regard is primarily rooted in our employees' commitment and performance and we thank them for their contribution to our fiscal 2005 achievements. We intend to further invest in their development with the knowledge that we can rely on their motivation, their commitment, their flexibility and their talents. At this time we would also particularly like to express our gratitude once more to the three Executive Vice Presidents who retired from the Management Board in 2005 – Dr. Klaus Morwind, Professor Dr. Uwe Specht and Knut Weinke. The drive and commitment to success that they have shown over these many years is truly exemplary.

Significant progress in the integration of our major acquisitions in the USA – The Dial Corporation, ARL (Advanced Research Laboratories) and Sovereign – was key to expanding our market positions in 2005. We have achieved our target synergies with these acquisitions, which continue to offer new potential. For the first time in our history, the USA has become the Henkel Group's biggest country in terms of sales revenue.

We also succeeded in defending our home market in Western Europe against tough competition. We have further increased our cost effectiveness and performance levels by implementing our efficiency-enhancement program on schedule. Despite the increase in the capital base arising from our acquisitions, we also succeeded in slightly improving return on capital employed.

Our four business sectors operating in the three strategic areas of competence – Home Care, Personal Care, and Adhesives, Sealants & Surface Treatment – all contributed to the increase in sales and improvement in earnings in 2005, not least because they were able to expand their positions in the growth regions of Eastern Europe, Africa/Middle East, Asia-Pacific and Latin America. Our corporate acquisitions and the businesses taken over as part of the Clorox exchange deal have been major contributors in this regard.

You may remember we set the goal for fiscal 2005 of improving Henkel's ability to grow from within. Our organic sales growth offers proof positive of our success. We also gave ourselves the task of integrating the acquired companies quickly and smoothly, utilizing all the potential synergies arising from this process while improving our cost structures and margins. We have also attained these targets.

Our ability to forge the future, to respond pro-actively to the constantly changing world, will be crucial to further expanding our market positions. Innovations with our brands and processes are the most important prerequisite for our market success going forward. We intend to further increase our efforts on this front and have therefore declared fiscal 2006 our "Year of Innovation". We expect all our employees to become more involved than ever in our search for new – ideally market changing – products and processes. Innovations are vital to securing our lead in the markets and to strengthening our product brands in the face of increasingly tough competition.

In order to be successful in our innovation efforts, we need to focus particularly closely on our customers. We need to understand their requirements with a high degree of accuracy and, ideally, exceed their current expectations with our brands and technologies. In order to achieve this goal, our vision needs to extend into the unknown, beyond our corporate comfort zone. In our strategic research and development work, we utilize a worldwide network comprising over 250 university-based partners. We also invest specifically in start-ups and venture capital funds. Our aim is to make new discoveries, not as an end in themselves but rather as a means of effectively contributing to Henkel's success. We are constantly shortening the process from product idea to market launch through efficiency improvements. Already today, around one quarter of our annual sales are generated by new, innovative products introduced during the preceding three years. Our intention is to increase this proportion to 30 percent.

Fiscal 2006 will see a continuation of our efforts to further globalize the Henkel Group, with the Asia-Pacific region expected to play an important role. And, as has previously been the case, we intend to supplement our organic growth with selected acquisitions.

Our results for 2005 show we are well on our way to achieving our financial targets for 2008. Our intention for 2006 is to generate organic sales growth of 3 to 4 percent, to increase operating profit by around 10 percent after adjusting for foreign exchange and likewise to achieve an increase in earnings per preferred share of about 10 percent.

We thank our corporate bodies and committees for their advice, guidance and constructive criticism, and we thank you, our shareholders, for your continuing confidence and support.

Sincerely yours,

Dipl.-Ing. Albrecht Woeste
Chairman of the Shareholders' Committee and of the Supervisory Board

Prof. Dr. Ulrich Lehner
Chairman of the Management Board of Henkel KGaA

Düsseldorf, February 14, 2006

Dear Shareholders,

As required by law and the Company's Articles of Association, the Supervisory Board carefully and regularly monitored the Management Board during the course of fiscal 2005, at the same time advising on the strategic development of the Company and on major business activities undertaken.

To this end, we were informed regularly and comprehensively by the Management Board on relevant matters during Supervisory Board meetings and were provided with additional written and verbal reports on the business situation, the development of the Company, business policy, profitability and short-term and long-term corporate and financial planning. In the course of the quarterly reports, details were provided of the sales and profits of the Henkel Group both as a whole and with further analysis by business sector and geographic region. In addition, the Chairman of the Supervisory Board remained in regular contact with the Chairman of the Management Board outside Supervisory Board meetings, receiving information on current business developments and consulting on important questions of Company policy and business performance.

In the year under review, the Supervisory Board had four meetings at which the reports of the Management Board were discussed in detail and joint deliberations were conducted with the Management Board on strategic issues and major projects and activities.

Main areas of Supervisory Board deliberation

In our discussions on corporate strategy, we dealt specifically with business developments and differences in the individual regions. The focus here was on the business sectors Consumer and Craftsmen Adhesives and Cosmetics/Toiletries, and specifically their future direction. We also dealt in detail with developments in North America, particularly the integration of Dial and the ensuing US structure/organization. Our business performance and market potential in Russia and the CIS states were also considered.

Further points of emphasis included implementation of our Advanced Restructuring measures, the development of raw material prices and the organization of our procurement activities.

In discussing the budget for the Henkel Group, we looked particularly carefully into the plans submitted by the individual business sectors, their respective product innovations and strategies, and issues relating to research and development.

Corporate governance

Again in 2005, the Supervisory Board examined the issue of corporate governance. Using the results of a comprehensive survey undertaken, we discussed in detail in our meeting of February 14, 2006, the efficiency with which we carried out our own work. There were no concerns raised with respect to the Supervisory Board's independence or the manner in which it performs its tasks.

Also at this meeting, proposals for resolution by the Annual General Meeting and the joint Declaration of Compliance of the Management Board, Shareholders' Committee and the Supervisory Board with the German Corporate Governance Code for 2006 were discussed, approved and ratified. The full wording of the current and also previous declarations of compliance can be found on the Company's website.

Annual and consolidated financial statements and auditing matters

The annual financial statements of Henkel KGaA for the year ended December 31, 2005 and the consolidated financial statements and management reports, including the accounting records from which they were prepared, have been examined by the auditors appointed at the last Annual General Meeting, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft ("KPMG"), Berlin and Frankfurt am Main, and issued with an unqualified opinion.

KPMG reports that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Henkel KGaA in accordance with German generally accepted accounting principles, and that 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, in compliance with International Financial Reporting Standards. KPMG further confirms that the consolidated financial statements and Group management report for the year under review meet the requirements of Paragraph 315a (1) HGB (German Commercial Code).

All the financial statements and associated documentation including the audit reports of KPMG, and the recommendation by the personally liable managing partners for the appropriation of profit, have been laid before the Supervisory Board. They have been examined by the Supervisory Board and were discussed at the meeting of February 14, 2006. This was held in the presence of the auditors, who reported on their main audit findings. The occasion was also used to discuss Henkel's risk management system including the quantification by the Management Board of major individual risks. It was concluded that the risk management system satisfies the associated statutory requirements; there was no evidence of any risks that could endanger the continued existence of the Group as a going concern.

We concur with the auditors' findings and, having concluded our own examination, see no reason for reservation or objection. At the meeting of February 14, 2006, we endorsed the annual financial statements, the consolidated financial statements and the management reports prepared by the personally liable managing partners in consultation with the other members of the Management Board, and we also approved the recommendation by the personally liable managing partners for the appropriation of profit.

Membership of the Supervisory Board and Management Board

On February 28, 2005, Mrs. Brigitte Weber, the longest-serving member of the Works Council of Henkel KGaA, sadly passed away. Mr. Engelbert Bäßler has taken her place on the Supervisory Board. Effective the end of the Annual General Meeting of April 18, 2005, Dr. Simone Bagel-Trah resigned her seat as member of the Supervisory Board and joined the Shareholders' Committee. Dr. Friderike Bagel was elected by the Annual General Meeting to take her place on the Supervisory Board.

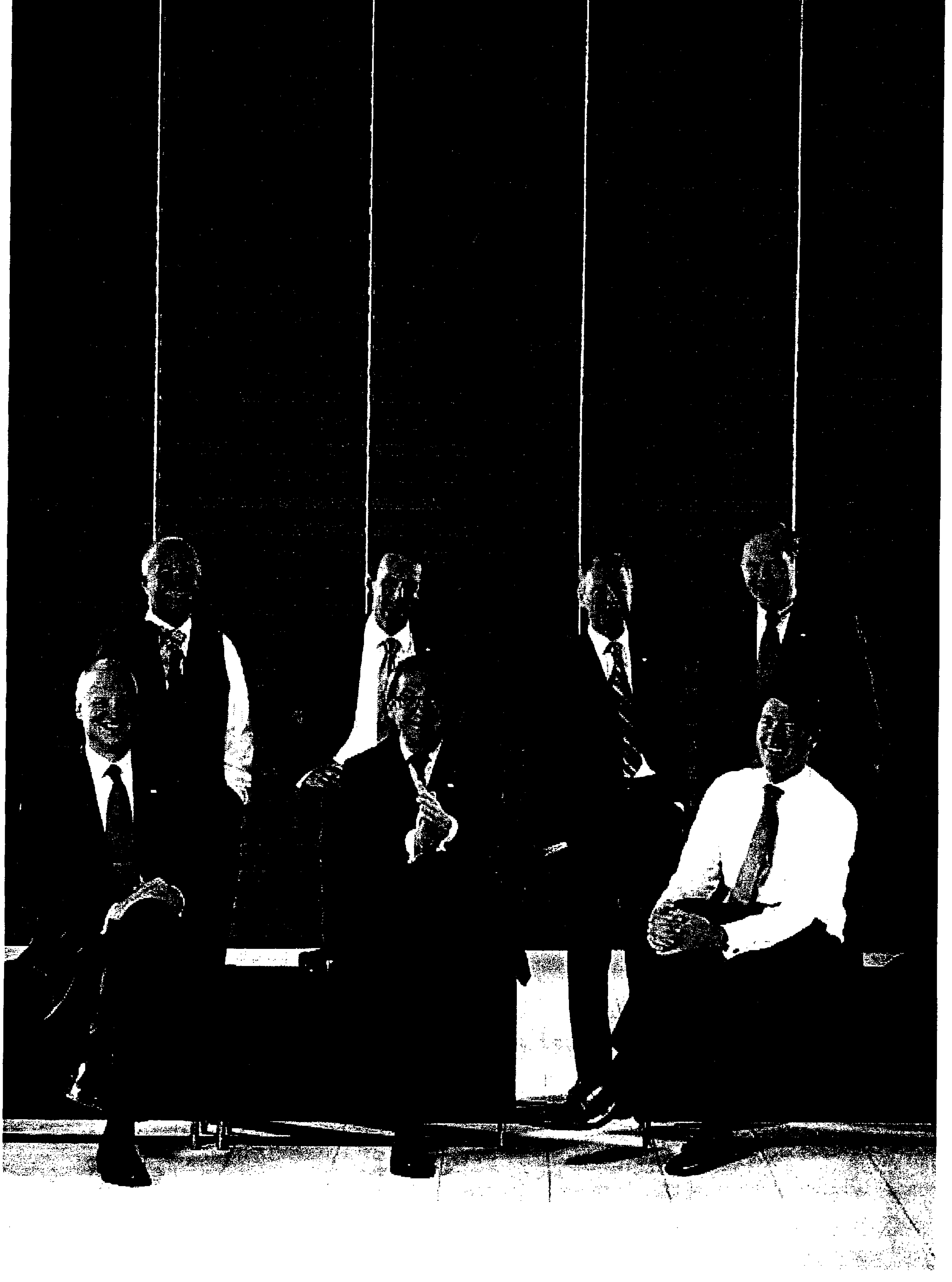
The Management Board, whose members are appointed by the Shareholders' Committee in accordance with the Company's Articles of Association, also underwent a number of changes. Effective March 31, 2005, Knut Weinke, and effective June 30, 2005, Prof. Dr. Uwe Specht and Dr. Klaus Morwind all took retirement. Their replacements as members of the Management Board are, effective April 1, 2005, Kasper Rorsted, Executive Vice President Human Resources/Purchasing/Information Technologies/Infrastructure Services, and effective July 1, 2005, Hans Van Bylen, Executive Vice President Cosmetics/Toiletries, and Dr. Friedrich Stara, Executive Vice President Laundry & Home Care.

The Supervisory Board thanks the Management Board and all Henkel employees for their hard work and commitment in 2005.

Düsseldorf, February 14, 2006

The Supervisory Board
Dipl.-Ing. Albrecht Woeste
(Chairman)

Management Board



Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful.

Prof. Dr. Ulrich Lehner[1)]
Chairman of the Management Board of Henkel KGaA, born May 1, 1946 in Düsseldorf/Germany; with Henkel since 1981 including an interim break of three years.

Dr. Lothar Steinebach
Executive Vice President Finance, born January 25, 1948 in Wiesbaden/Germany; with Henkel since 1980.

Kasper Rorsted
Executive Vice President Human Resources/ Purchasing/Information Technologies/Infrastructure Services, born February 24, 1962 in Aarhus/ Denmark; with Henkel since April 2005.

Dr. Friedrich Stara
Executive Vice President Laundry & Home Care, born March 3, 1949 in Amstetten/Austria; with Henkel since 1976.

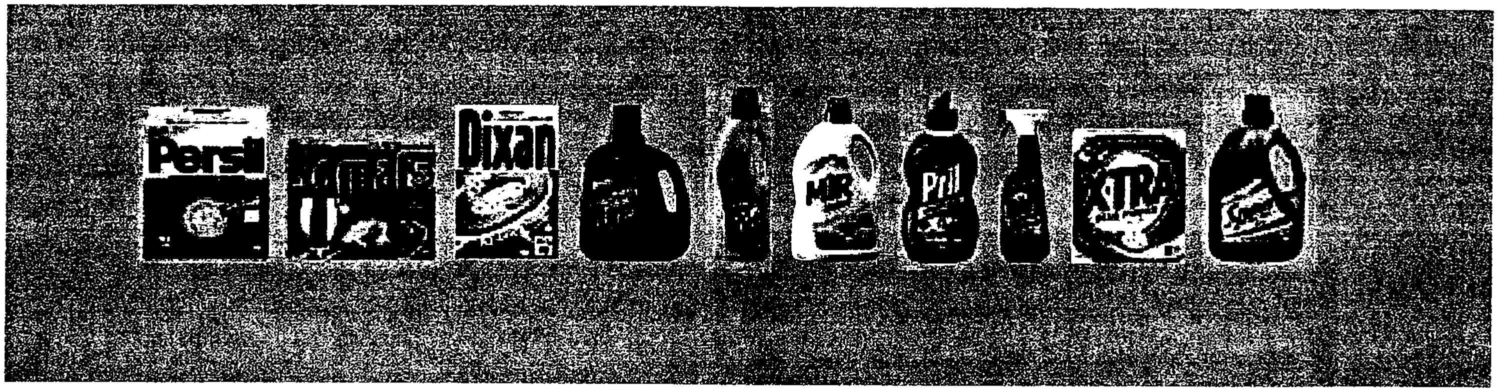
Hans Van Bylen
Executive Vice President Cosmetics/Toiletries, born April 26, 1961 in Berchem/Belgium; with Henkel since 1984.

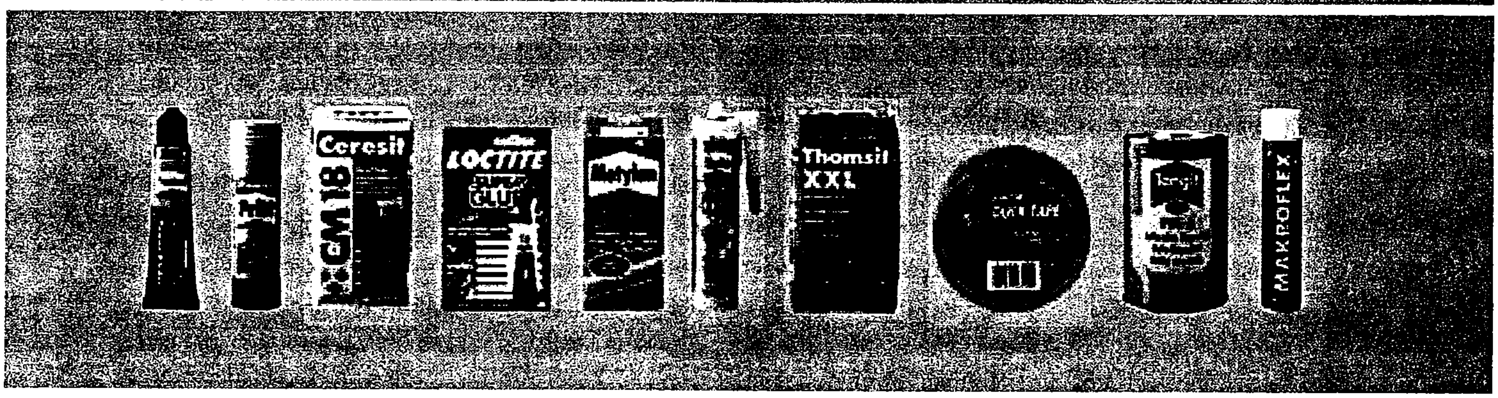
Alois Linder
Executive Vice President Consumer and Craftsmen Adhesives, born August 4, 1947 in Spittal/ Austria; with Henkel since 1979.

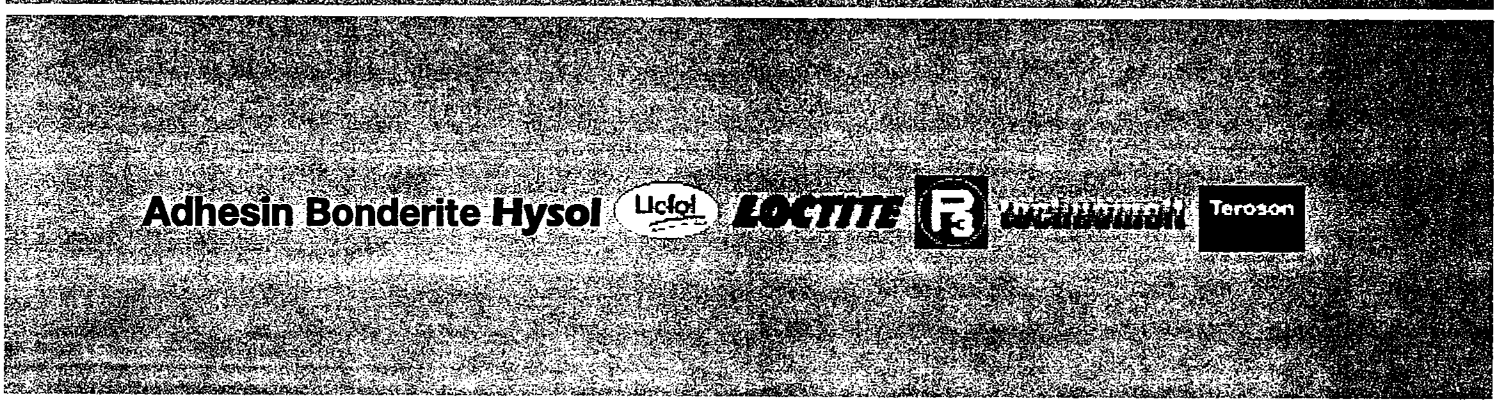
Dr. Jochen Krautter[1)]
Executive Vice President Henkel Technologies, born October 24, 1942 in Stuttgart/Germany; with Henkel since 1973.

[1)] Personally liable managing partner

Our Products







Laundry & Home Care

Heavy-duty detergents; fabric softeners; laundry conditioning products; dishwashing products; all-purpose cleaners; scouring agents; floor and carpet care products; bath and toilet cleaners; glass cleaners; kitchen cleaners; specialty cleaners; air fresheners and insecticides for household applications

Cosmetics/Toiletries

Hair shampoos and conditioners; hair colorants; hair styling and permanent wave products; toilet soaps; shower gels and bath products; deodorants; skin creams; skin care products; dental care and oral hygiene products; perfumes and fragrances; hair salon products

Consumer and Craftsmen Adhesives

Wallpaper pastes; ceiling, wall covering and tile adhesives; home decoration products; sealants; polyurethane foam fillers; cyanoacrylates; contact adhesives; wood glues; assembly adhesives; PVC pipe adhesives; flooring adhesives; waterproofing products; thermal insulation products; coatings; roofing products; glue sticks; glue rollers; correction products; adhesive tapes

Henkel Technologies

Bookbinding and labeling adhesives; wood adhesives; hygiene product adhesives; structural adhesives; packaging adhesives; laminating adhesives; reaction adhesives; high-performance sealants; polyurethane adhesives and sealants; cable insulating compounds and sealants; corrosion inhibitors; surface treatment systems for metals; PVC and polyacrylate plastisols; water treatment products; cleaning agents; lubricants

Our Innovations 2005

Bref Multi-Degreaser
The cleaner that removes grease, oil, burnt-in stains and soot easily and quickly throughout the home.

Persil Freshness by Silan
Offering a new dimension in laundry performance – Persil cleanliness combined with the freshness of Silan.

Pril Power Spray
The cleaning spray for pretreating baked-in or dried-on food residues prior to dishwashing.

Sil Oxi Perfect 2
The high-performance stain remover for a wide spectrum of stubborn stains; highly effective thanks to its special dual chamber technology.

WC Frisch FreshSurfer
The WC FreshSurfer offers optimum cleanliness and a fresh fragrance incorporated within an exceptional design by Alessi; marketed internationally under the Bref brand.

BC Bonacure hairtherapy
The first hair therapy for profound, long-lasting hair beauty engendered by hair-like amino acids.

Diadermine Wrinkle Expert 3D
The anti-wrinkle cream that promotes build-up of the tissue supporting the skin; deep wrinkles are visibly reduced in three dimensions.

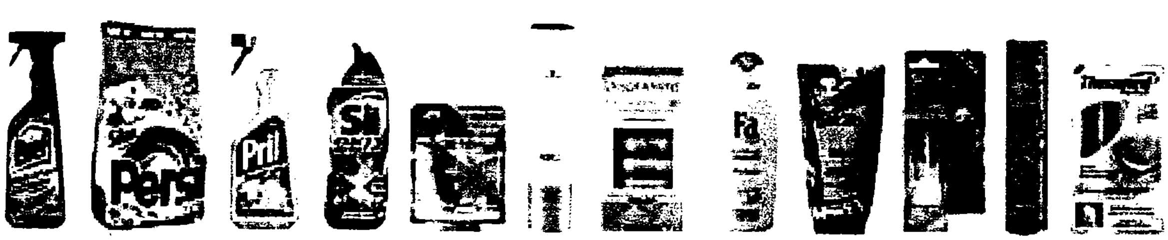
Fa Yogurt
The first shower gel with yogurt proteins for a pampering and fresh shower experience.

got2b
The styling brand with true "street cred" from the USA – now taking Europe by storm.

Poly Color Retoucher
The first retouching pen for treating roots between colorations.

Taft LYCRA® Flex
The first hair styling product with LYCRA® flex effect for a perfect hold plus 60 percent more flexibility.

Theramed Perfect Whitening Pen
The convenient tooth-whitening pen that produces significant brightening after just two weeks of regular use.



Ceresit CN 75 EasyPlan

The self-smoothing floor leveling compound with "Easy" technology – it weighs less and covers more.

Pattex Removable Assembly Adhesive

The removable multi-purpose, multi-material assembly adhesive that can be removed without causing surface damage.

Pattex Repair Express Monodose

The portion packs that enable fast application in line with requirements. This two-component adhesive putty repairs, bonds and fills many materials.

Pritt EasyStart Adhesive Tape

The premium adhesive tape with the integrated start and tear aid is available in "Crystal Clear" and "Invisible" grades.

Pritt Comfort Correction Roller

The correction roller that is easy to use and offers outstanding results thanks to its sideways action; recipient of the "red dot" design award.

Thomsit P 685 SiCure Elast Universal

The adhesive for solid and preformed parquet flooring. Based on SiCure technology, it protects the underlying surface from shear stress and provides a permanently flexible bond.

Multicore LF318 Lead-Free Solder Paste

The lead-free solder paste for use in modern electronics components. It is environmentally compatible, can be economically metered and is moisture-resistant.

Purmelt Dual Cure

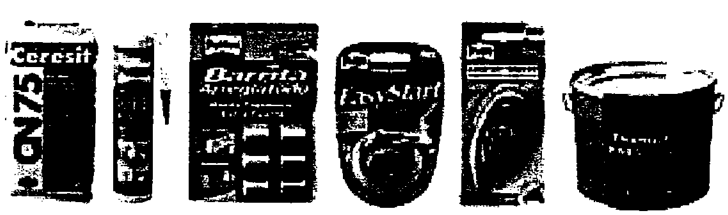
This Purmelt adhesive hardens to 80 percent of its final strength in just three minutes under UV radiation, resulting in faster customer production processes.

Terokal 5074 Crash Resistant Structural Adhesives

The structural adhesive based on epoxy resins that offers the dual benefits of high strength and high flexibility. Used primarily in automobiles to enhance crash safety.

Terophon 8200 series

Moldings that serve to dampen vibrations in vehicles and reduce noise in the passenger compartment.



Purmelt Multicore Teroson

Shares

Significant share price increase
DAX and consumer goods index outperformed
Higher liquidity levels
International shareholder structure

2005 was an excellent year for Henkel shareholders. Compared with the closing price in 2004, the preferred share rose 32.8 percent to 85.00 euros, outperforming the German DAX stock index by around 6 percentage points (DAX +27.1 percent). The ordinary share price rose 29.0 percent to 78.54 euros.

Henkel's shares also performed extremely well compared with the Dow Jones Euro Stoxx Consumer Goods index, which registered a gain of 22.7 percent compared with the 2004 figure.

Henkel preferred shares steadily grew in value during the year. They quickly recovered from minor dips in May and October, finishing 2005 close to their year high. The ordinary shares followed the same pattern. Investors were obviously encouraged by our accelerating organic sales growth and the improved profitability achieved in spite of increases in raw material prices.

The rise in the market prices of Henkel's shares was accompanied by an increase in their liquidity, with an average of 383,000 preferred shares changing hands per trading day (previous year: 348,000). The average for our ordinary shares was 50,000 per trading day, 17,000 more than in the previous year. The market capitalization of our ordinary and preferred shares increased from 9.1 billion euros to 11.8 billion euros.

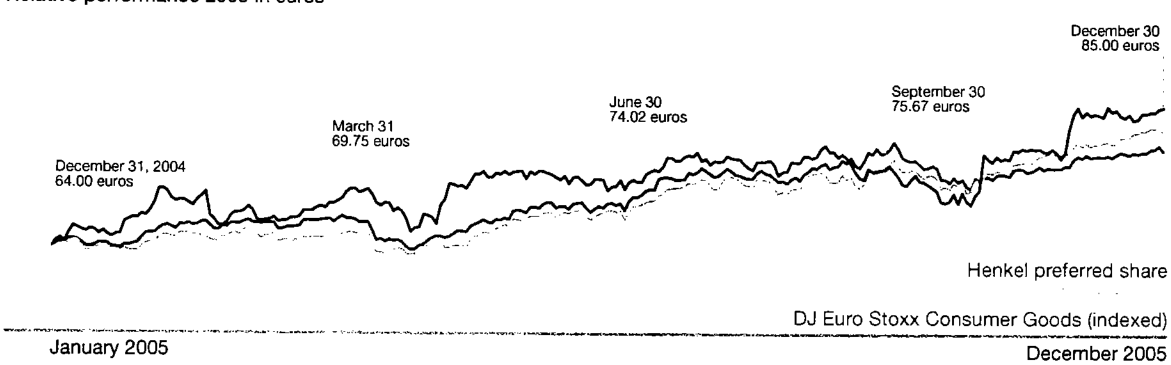
This means that in the course of 2005 we again remained true to one of our corporate objectives, namely to continue increasing the value of the Company over the long term to the benefit of our investors. Since the issue of Henkel's preferred shares in 1985, shareholders who re-invested their dividends in further share purchases would, by the end of 2005, have enjoyed an average annual yield (before tax) of 9.7 percent. Over the same period, DAX tracking would have provided an annual yield of 8.0 percent.

Henkel shares listed in all major indexes

Henkel shares are predominantly traded on the Xetra electronic market of the Frankfurt Stock Exchange. Henkel is also represented on the floor of this and the other regional stock exchanges in Germany. In the USA, investors are able to acquire Henkel preferred and ordinary shares by way of stock ownership certificates obtained through the Sponsored Level I ADR (American Depositary Receipt) program. The number of such certificates issued in 2005 increased substantially over the figure for the previous year.

The international significance of Henkel preferred shares is also indicated by their inclusion in major international indexes. These include the MSCI Europe, the Dow Jones Stoxx 600, the FTSE World Europe, and

Relative performance 2005 in euros



sustainability indexes such as the Dow Jones Stoxx Sustainability. These indexes are used as indicators for the capital markets and as benchmarks for fund managers.

Henkel as a DAX stock counts among the 30 most important listed corporations in Germany. At the end of 2005, the market capitalization of the DAX-relevant preferred shares was about 5.0 billion euros, putting Henkel at number 26 in the DAX rankings with a weighting of 0.9 percent.

Share data

	Preferred	Ordinary
Security Code No.	604843	604840
ISIN Code	DE0006048432	DE0006048408
Stock Exch. Symbol	HEN3.ETR	HEN.ETR
Number of Shares	59,387,625	86,598,625

International shareholder structure

Our preferred shares – the more liquid class – are widely owned internationally, the majority being held by investors in the USA, Germany, the UK and Switzerland.

Around 2.5 million preferred shares have been repurchased by Henkel KGaA in the past for the company's Stock Incentive Plan. As of December 31, 2005, treasury stock amounted to 2.4 million preferred shares. Of the ordinary shares, 51.5 percent are owned by parties to the Henkel family's share-pooling agreement.

Employee shares in high demand

Since 2001, Henkel has been operating a share ownership program for all employees worldwide. For each euro invested by an employee (limited to a maximum of 4 percent of salary), Henkel added an additional 33 cents in 2005. By December 31, 2005, a total of 13,209 employees from almost 50 countries together held 1.1 million shares within the ESP (Employee Share

Key data on Henkel shares 2001 to 2005 in euros

	2001	2002	2003	2004	2005
Earnings per share in accordance with IFRS[1]					
Ordinary shares	4.27	3.97	4.28	5.18	5.25
Preferred shares	4.32	4.03	4.34	5.24	5.31
Share price at year-end[2]					
Ordinary shares	57.30	52.25	58.29	60.89	78.54
Preferred shares	63.50	60.55	62.00	64.00	85.00
High for the year[2]					
Ordinary shares	68.47	69.69	60.90	68.00	78.54
Preferred shares	74.93	77.20	64.35	73.58	85.10
Low for the year[2]					
Ordinary shares	56.04	50.60	43.88	52.51	60.95
Preferred shares	61.20	59.18	49.56	56.00	64.35
Dividends					
Ordinary shares	1.06	1.06	1.14	1.24	1.30[3]
Preferred shares	1.12	1.12	1.20	1.30	1.36[3]
Market capitalization in billion euros	**8.7**	**8.1**	**8.7**	**9.1**	**11.6**

[1] comparable, 2004 restated and comparable
[2] Xetra closing prices
[3] proposed

The Company

Program), or around 1.9 percent of Henkel's preferred shares. The vesting period for newly acquired shares is three years.

Committed to capital market communication

Henkel places great importance on meaningful dialog with both shareholders and financial analysts. During 29 capital market conferences and road shows held in Europe and the USA, institutional investors and financial analysts were afforded the possibility of talking directly to Henkel's top management. In addition, there were numerous telephone conferences and individual meetings held at our Düsseldorf headquarters – totaling more than 400 events in all.

Private investors are able to obtain all the information they need through telephone inquiry or the constantly updated Investor Relations website available at www.ir.henkel.com. This also serves as the medium for the live broadcast of telephone and analysts' conferences. The Annual General Meeting constitutes a further forum at which comprehensive information can be obtained from Henkel management.

The quality with which capital market communications are conducted is evaluated by independent rankings. In the Investor Relations Awards conferred by the magazine "Capital", Henkel garnered the runner-up position for DAX companies. And in a survey undertaken by the Saarbrücken Institute of Auditing in collaboration with the business newspaper "Handelsblatt" and management consultants Mercer Management, Henkel's annual report for 2004 likewise took a commendable second place.

You will find a **calendar** with all our important dates on the last page of this report.

Good credit ratings retained

Our creditworthiness is regularly checked by independent rating agencies. Henkel has set itself the goal of maintaining its ratings in the A range.

Standard & Poor's and Moody's both confirmed their good credit ratings for Henkel in 2005. On January 12, 2006, Moody's upgraded its outlook for Henkel from "negative" to "stable", due primarily to the improvement in our key financial ratios.

Credit ratings[1)]

	Standard & Poor's	Moody's
Long-term (outlook)	A– (stable)	A2 (negative)
Short-term (outlook)	A2 (stable)	P1 (negative)

[1)] at December 31, 2005

New hybrid bond

Henkel issued a hybrid bond in the amount of 1.3 billion euros for the purpose of financing a major portion of our pension obligations in Germany. The proceeds of the bond were allocated to a special-purpose CTA (Contractual Trust Arrangement), Henkel Trust e.V. The bond was eagerly awaited by investors, as reflected by its four-fold over-subscription. This measure enhances Henkel's financial scope while also further safeguarding the pensions of our employees and retirees.

Henkel shares monitored by numerous financial analysts

Henkel is tracked by a number of financial analysts, primarily in Germany, the UK and the USA. Over 25 analysts regularly publish studies and commentaries on current developments at the Group, and issue their recommendations accordingly.

Corporate Governance

Henkel committed to value-based management

Active and open information policy

Compliance with the German Corporate Governance Code

For Henkel, good corporate governance means responsible, transparent management and control aligned to the long-term generation of shareholder value. Within this context, the Management Board, Shareholders' Committee and Supervisory Board have committed themselves to the following maxims:

- Value creation as the foundation of our managerial approach
- Sustainability as a criterion for responsible management
- Transparency underpinned by an active and open information policy.

Henkel is a "Kommanditgesellschaft auf Aktien" (KGaA), i.e. a partnership limited by shares and incorporated under German law. This corporate form and our Articles of Association give rise to certain differences with respect to a German stock corporation (AG), which we would like to explain in the following:

A KGaA is a company with its own legal personality (i.e. it is a legal person) in which at least one partner has unlimited liability with respect to the company's creditors ("personally liable partner"). The other partners participate in the common stock, which is split into shares. Beyond these contributions they are not personally liable for the company's debts ("limited partners"). Hence a KGaA is a hybrid of a stock corporation and a limited commercial partnership. It is predominantly governed by corporation law.

At Henkel KGaA, the duties of the board of directors of a German stock corporation are performed by the Management Board. This comprises the personally liable managing partners plus other duly appointed members.

In accordance with Germany's Codetermination Law of 1976, we also have a Supervisory Board with 16 members made up of an equal number of shareholder and employee representatives. The purpose of the Supervisory Board is to regularly advise and to monitor the Management Board in its stewardship of the company.

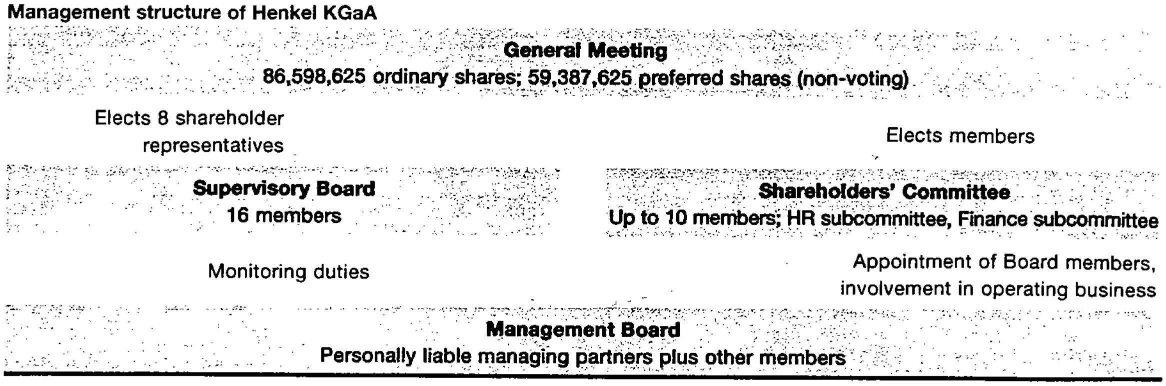
According to our Articles of Association, in addition to the statutory Supervisory Board, Henkel also has a standing Shareholders' Committee which is responsible for appointing the members of the Management Board, issuing the internal rules of procedure guiding the actions of the Management Board, and stipulating classes of business transaction that require approval. Acting on behalf of the General Meeting, it is also involved in the management of the businesses.

The Shareholders' Committee has established a Finance and also a Human Resources subcommittee drawn from among its members. The Finance Committee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal audit and corporate risk management. The Human Resources Committee deals principally with personnel matters relating to the Management Board, issues of human resources strategy, and remuneration.

The Management Board, the Shareholders' Committee and the Supervisory Board work closely together for the good of the Company. The Management Board discusses the strategic direction of the Company with the Shareholders' Committee and the two bodies regularly consult on the progress being made in its implementation.

The General Meeting of Henkel KGaA essentially has the same rights as the Shareholders' Meeting of a German stock corporation (AG). In addition, it also votes on the adoption of the annual financial statements of the Company and the appointment of members of the Shareholders' Committee and ratifies their actions. Numerous resolutions passed by the General Meeting, such as the adoption of the annual financial statements, require the approval of the personally liable managing partners.

Management structure of Henkel KGaA



German Corporate Governance Code

Notwithstanding the above-mentioned special aspects, Henkel KGaA complies with the main recommendations ("shall" provisions) of the German Corporate Governance Code, with two exceptions:

The remuneration of the members of the corporate bodies is disclosed as a total amount with breakdown according to fixed salary, performance-related emoluments and components with a long-term incentive effect. The ratio of the individual components with respect to one another is also indicated. More details are provided in the remuneration report on page 32.

Unless required by law and in order to protect the legitimate interests and private spheres of the members of the corporate bodies who are also members of the Henkel family, individual shareholdings are not disclosed where they exceed 1 percent of the shares issued by the Company.

Henkel complies with the discretionary provisions ("should/may" suggestions) of the Code. The relevant declarations of compliance have been posted on our Investor Relations website at www.ir.henkel.com.

In accordance with the Declaration of Compliance, the following details are disclosed in relation to notifiable shareholdings: The aggregate shares held by the members of the Supervisory Board and the Shareholders' Committee exceed in both cases more than 1 percent of the shares issued by the Company. The aggregate shareholding of the members of the Management Board is less than 1 percent of the shares issued by the Company. As disclosed in the notifications published in accordance with § 15a WpHG (Securities Trading Law, "Directors' Dealings"), in fiscal 2005 members of the Management Board purchased a total of 1,800 preferred shares and sold 3,060 preferred shares; members of the Supervisory Board/Shareholders' Committee sold a total of 382,000 ordinary shares and purchased 52,628 preferred shares. Persons closely related to members of the Management Board, the Supervisory Board or the Shareholders' Committee sold a total of 10,000 preferred shares.

For further details in this regard and also in relation to corporate governance in general, please log on to our website at www.ir.henkel.com.

Group Management Report for Fiscal 2005

Operational activities

Overview

Founded in 1876, Henkel completed its 129th year of corporate activity in 2005. Today, the Henkel Group boasts a global workforce of more than 50,000 employees, and day in, day out, people in more than 125 countries put their trust in our brands and technologies.

Organization and business sectors

Henkel KGaA is operationally active as well as being the parent company of the Henkel Group. In this latter role, it is responsible for defining the Group's corporate objectives and for the management, control and stewardship of Group-wide activities, including risk management and the distribution of resources. Henkel KGaA performs its tasks within the legal scope afforded to it as part of the Henkel Group, with the affiliated companies otherwise operating as legally independent entities. Operational control of the Group is incumbent upon the Management Board, which in turn is supported by the Corporate Center.

Henkel is organized into four business sectors:

- Laundry & Home Care
- Cosmetics/Toiletries
- Consumer and Craftsmen Adhesives
- Henkel Technologies.

The product range of the Laundry & Home Care business sector comprises heavy-duty detergents, special detergents and cleaners. The portfolio of the Cosmetics/Toiletries business sector encompasses hair cosmetics, products for body, skin and oral care, and products and services for the professional salon segment. The Consumer and Craftsmen Adhesives business sector offers home decoration products, adhesives and correction products for the home and office, and also building adhesives. Our industrial and structural adhesives, sealants and surface treatment products fall within the Henkel Technologies portfolio.

The four business sectors are managed as globally operational strategic business units. They are supported by the central functions of Henkel KGaA in order to ensure optimum utilization of Group synergies. Implementation of the strategies at a local level is the responsibility of the affiliated companies operating in the field. The executive bodies of these companies manage their businesses in line with the relevant statutory regulations, supplemented by their own articles of association and internal procedural regulations.

Strategy and 2008 financial targets

In order to achieve our strategic objective of profitable growth, we have fixed our focus on three areas of competence:

- Home Care
- Personal Care
- Adhesives, Sealants & Surface Treatment.

Our four business sectors operating in these three core areas already boast leading market positions, and we intend to further expand these on a global basis. Our approach here will be one of driving organic sales growth complemented by growth derived from selected acquisitions.

A further important element of our long-term strategy is that of concentrated regional expansion in the profitable North American market accompanied by a strong focus on the growth markets of Eastern Europe, Africa/Middle East, Asia-Pacific and Latin America. This is not to say, however, that we will be neglecting Western Europe. We have succeeded in increasing the share of sales attributable to North America to 23 percent – due particularly to the acquisitions Dial, ARL, Sovereign and Orbseal made in 2004. Now our attention is being directed particularly to further expansion of the revenues generated in the rapidly developing growth markets.

Henkel Group: 2008 financial targets

Organic sales growth p.a.	3–4 %
2008 EBIT margin	12 %
2008 ROCE	16 %
EPS growth p.a.	≥10 %

Our target is to increase share of sales attributable to these markets to at least 30 percent by 2008. The emphasis will be on organic sales growth supplemented by selected acquisitions, especially in those markets in which we are either not yet represented or are currently under-represented.

Our strong brands and successful technologies are expected to play a decisive role in the attainment of these objectives. We are represented by our brands in both the premium and value-for-money segments. Our portfolio comprises a balanced mix of international, regional and local brands. We support these through the development of high-quality, innovative products and appropriate advertising and other promotional measures. These investments serve to enhance the value of our brands and ensure that they remain attractive in the marketplace.

Our product development activities are constantly being realigned to the requirements and needs of customers and consumers. Instead of developing products exclusively "for" customers and consumers, we are conducting these activities more and more "with" both groupings on a collaborative basis. We are also constantly striving to improve our innovation processes. The period from product idea to market launch is being steadily shortened through the introduction of increasingly efficient procedures, and through this we are continuously improving the deployment of our financial resources. We have set ourselves the goal of increasing the share of sales attributable to new, innovative products in any three year period from 25 percent to 30 percent.

Our financial targets for 2008 envision not only organic growth in sales but also above-average increases in both operating profit and earnings per share. We also intend to further increase return on capital employed (ROCE). To achieve these objectives, we will be concentrating even more on products offering higher contributions while also targeting further improvements in the operating margins of our growth markets. We likewise aim to become more efficient along our entire value chain.

Value-based management and control

To make achievement of our growth targets measurable, we have adopted a modern system of metrics allowing us to calculate value-increase and return ratios in line with capital market practice.

We use economic value added (EVA®)[1] as a central performance management parameter and to assess our growth to date and future plans.

EVA® is a measure of the financial added value created by a company in a given reporting period. A company creates economic value added if its operating profit exceeds its cost of capital, being the return on capital expected by the capital market.

Operational business performance is measured on the basis of operating profit (EBIT). The capital employed figure is calculated from the assets side of the balance sheet. A reconciliation of the year-end figures in the balance sheet to the average values used in calculating capital employed can be found on page 102.

The cost of capital employed is calculated as a weighted average of the cost of equity and debt (WACC). In fiscal 2005, we applied a WACC after tax of 7 percent. Before tax, the figure was 11 percent. We regularly review our cost of capital in order to reflect changing market conditions such as the decline in interest rate levels. The beta factor for Henkel has increased because our preferred shares have recently closely tracked the positive developments of the stock market as a whole. From fiscal 2006, we will be adopting a WACC before tax of 10 percent. At Henkel, EVA® is calculated as follows:

$$\text{EVA}^{®} = \text{EBIT} - (\text{Capital Employed} \times \text{WACC})$$

[1] EVA® is a registered trademark of Stern Stewart & Co.

Weighted average cost of capital in percent

	up to 2005 (inclusive)	from 2006
Risk-free interest rate	5.5 %	4.0 %
Market risk premium	4.1 %	4.5 %
Beta factor	0.72	0.90
Cost of equity after tax	8.5 %	8.1 %
Cost of debt capital before tax	6.0 %	5.1 %
Tax shield (35 percent/30 percent from 2006)	–2.1 %	–1.5 %
Cost of debt capital after tax	3.9 %	3.6 %
Share of equity[1]	65 %	75 %
Share of debt capital[1]	35 %	25 %
WACC after tax	7 %	7 %
Tax rate	35 %	30 %
WACC before tax	11 %	10 %

[1] at market values

EVA® is also applied worldwide as a component in calculating our performance-related management compensation. This serves to promote value-adding decisions and profitable growth in all our business sectors. Businesses exhibiting consistently negative value contributions with no prospect of positive EVA® values in the future are divested or otherwise discontinued.

In order to be better able to compare business units of varying size, we additionally apply a return indicator derived from the EVA® concept: return on capital employed (ROCE), which is calculated as follows:

ROCE = EBIT/Capital Employed

ROCE thus represents the average return on capital employed. We create value where the return on capital employed exceeds the cost of capital. A breakdown of our latest EVA® and ROCE figures can be found on page 27.

Statutory and regulatory situation

Our business is governed by national rules and regulations and – within the European Union – increasingly also by pan-European harmonized laws. In certain segments, the granting of approvals, permits and licenses is subject to our ability to meet specific requirements. Our production sites must also be operated in line with environmental regulations.

The product-specific regulations affecting us relate primarily to ingredients and input materials, safety of manufacture and the handling, packaging and marketing of the finished article. The regulatory instruments involved range from material-related laws, usage prohibitions and restrictions and procedural requirements (test and inspection, marking, provision of warning labels, etc.) to product liability law. In Germany, the following regulations are particularly important for our operations:

- Chemicals law and hazardous substances/dangerous goods regulations
- Food and commodities law[1]
- Cosmetics regulations
- Laundry and cleaning detergents law[2]
- Biocides law
- Machinery, equipment and product safety law.

In the member states of the European Union, compliance is also required with the following directives, most of which have been transformed into national law: Aerosols and Biocides Directives; Material, Preparation and Safety Data Sheets Directives; Cosmetics Directive; Product Safety Directive.

National supervisory bodies monitor compliance with these rules and regulations. Where non-compliance is identified, the authorities are quick to intervene with a range of measures including judicial orders/injunctions forbidding the sale or circulation of the products concerned. We are also required to comply

[1] from September 7, 2005: Food and Feedstuffs Code
[2] from October 8, 2005: Detergents Regulations

with various manufacturing regulations in relation to the following:

- The use, storage, handling and transportation of certain substances
- Emissions, wastewater, residues and waste materials
- The construction and operation of industrial facilities.

The prime objective of our internal standards is to ensure compliance with statutory regulations and guarantee the safety of our production facilities for our employees, neighbors and the environment. The associated requirements have been incorporated in our internal safety, health and environment (SHE) management systems, which in turn are subjected to a regular audit and review regime. We also endeavor to ensure that relevant legal requirements and statutory changes are quickly identified and properly monitored and assessed.

Business performance

World economy

World economic activity in 2005 was robust. The US economy was healthy as was the economy in Asia with China performing particularly well and Japan emerging from its economic doldrums. Although the rate of growth in Latin America eased somewhat, business activity remained at a high level. Eastern Europe once again underwent strong expansion, contrasted by rather sluggish growth in Western Europe. Overall, this meant that Europe once again trailed the rest of the world. Despite some revival in the course of the year, Germany's growth put it close to the bottom of the European league.

Developments by sector

Private consumption was once again weak in many countries of Western Europe, with levels stagnating in Germany. Consumer spending underwent an appreciable increase in the USA, Latin America and Eastern Europe, while in Asia the consumer sector lagged behind economic development as a whole.

Worldwide automobile production increased further, although output in Western Europe remained at the level of the previous year and there was only a small increase in North America. In contrast, Asia and Latin America achieved high growth rates.

The electrical engineering and electronics sector exhibited further growth in 2005.

The metalworking and the paper and packaging industries were only able to achieve a small degree of expansion worldwide.

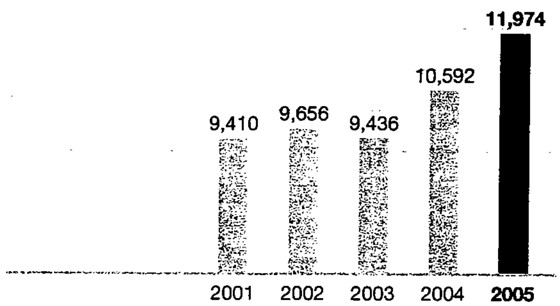
There was a slight increase in construction activity in Europe, progress being hampered primarily by a further decline in building investment in Germany. Meanwhile, construction activity in North America and also in many countries of South East Asia remained solid.

Sales and profits

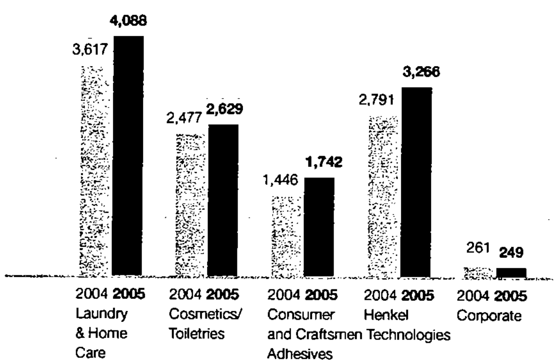
Sales at the Henkel Group in fiscal 2005 amounted to 11,974 million euros, 13.0 percent above the figure for the previous year. Acquisitions/divestments – and particularly the acquisition of Dial, the Clorox businesses and Sovereign – contributed to this rise with 8.5 percentage points, while foreign exchange accounted for 1.0 percentage points. At 3.5 percent, organic sales growth (sales adjusted for foreign exchange and acquisitions/divestments) was well within the 3–4 percent corridor that we announced at the beginning of the year, despite a weak start in the first quarter.

All our business sectors increased sales in organic terms as well as through the effects of the predominantly North American acquisitions. Laundry & Home Care benefited from the Clorox businesses and from the Dial acquisition, the latter also contributing to growth at Cosmetics/Toiletries. The acquisition of Sovereign led to additional sales at our business sectors Consumer and Craftsmen Adhesives and Henkel Technologies. The

Sales in million euros



2005 sales by business sector in million euros

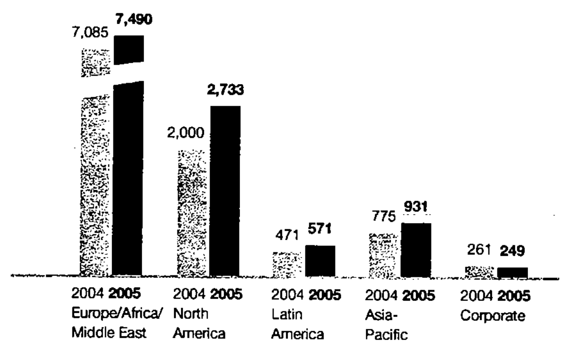


Sales development[1]

	2005
Change versus previous year	13.0 %
Foreign exchange	1.0 %
Adjusted for foreign exchange	12.0 %
Acquisitions/Divestments	8.5 %
Organic	3.5 %

[1] calculated on the basis of units of 1,000 euros

2005 sales by region in million euros



organic growth rates ranged from 1.3 percent at Cosmetics/Toiletries to 5.5 percent at Henkel Technologies. Sales of the Corporate segment once again declined, mainly because Henkel provided fewer services to Cognis, our former chemicals business that was sold at the end of November 2001.

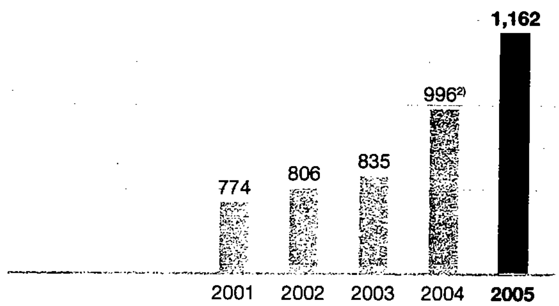
In the regional breakdown, Europe/Africa/Middle East exhibited significant growth. Sales there rose by 5.7 percent to 7,490 million euros, with all the business sectors contributing. Growth adjusted for foreign exchange amounted to 5.0 percent. Germany registered an encouraging plus in revenues. The share of sales attributable to the Europe/Africa/Middle East region fell from 67 percent to 62 percent.

Due primarily to the acquisitions mentioned, sales in North America rose by 36.6 percent to 2,733 million euros. All our business sectors benefited with double-digit growth rates. The increase in sales after adjusting for foreign exchange amounted to 36.2 percent. The share of sales of this region thus also rose, from 19 to 23 percent.

Thanks mainly to good organic growth, Latin America registered a 21.1 percent increase in sales to 571 million euros. Again, all our business sectors contributed with double-digit growth rates. After adjusting for foreign exchange, sales in the region increased by 13.6 percent. The share of sales attributable to Latin America was 5 percent.

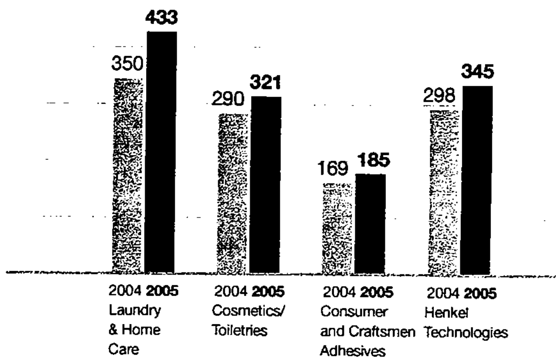
Business in Asia-Pacific was similarly encouraging. Sales grew by 20.2 percent to 931 million euros, or by 17.4 percent after adjusting for foreign exchange. In particular our business sectors Laundry & Home Care, Consumer and Craftsmen Adhesives and Henkel Technologies were able to benefit from the accelerated growth exhibited by the region. The insecticides business acquired from Clorox in South Korea further boosted results at Laundry & Home Care. The share of sales generated by the Asia-Pacific region increased to 8 percent.

EBIT[1] in million euros



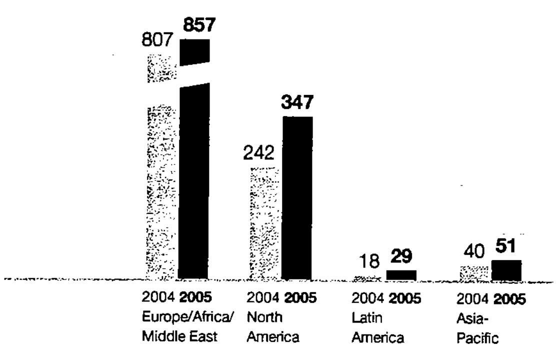
[1] comparable
[2] restated and comparable

2005 EBIT[1] **by business sector** in million euros



[1] 2004 restated and comparable

2005 EBIT[1] **by region** in million euros



[1] 2004 restated and comparable

Henkel Group EBIT in million euros	2004[1]	**2005**
EBIT from business sectors/regions	1,107	1,284
EBIT from Corporate	–111	–122
EBIT	**996**	**1,162**

[1] restated and comparable

Operating profit (EBIT) rose to 1,162 million euros, 16.7 percent above the comparable and restated[1] figure of 996 million euros for the previous year. After adjusting for foreign exchange, the improvement was 15.3 percent.

All our business sectors contributed to this positive profit performance. The EBIT figure for the Corporate segment further declined to –122 million euros.

During 2005, our businesses were confronted with, in some cases, quite significant increases in raw material prices. We were able to offset these to some extent by optimizing our product formulations. In addition, our business sectors Consumer and Craftsmen Adhesives and Henkel Technologies also succeeded in passing on some of the cost increases to the market. The above-average rise in operating profit, accompanied by an increase in return on sales (EBIT), was also due to the success of our restructuring measures initiated at the end of 2004. These have led to sustained cost reductions in production, distribution and administration.

Our regional developments were also encouraging, with double-digit percentage increases in EBIT (related to the comparable figure for the previous year) very much the norm. The sole exception was Europe/Africa/Middle East where operating profit grew by 6.2 percent (5.4 percent after adjusting for foreign exchange). This was because increases in the raw material costs could only be partially passed on to our customers. The growth in profit in North America of 43.5 percent (43.0 percent after adjusting for foreign exchange) is mainly due to the EBIT contribution from Dial and the Clorox businesses at Laundry & Home Care and Cosmetics/Toiletries. Consumer and Craftsmen Adhesives and also Henkel Technologies benefited primarily from the acquisition of Sovereign.

With the base still relatively low, operating profit in Latin America rose by 61.6 percent (45.3 percent after adjusting for foreign exchange). All our business sectors contributed to this growth, Henkel Technologies in particular. The Asia-Pacific region also succeeded in

[1] see explanation on front flap

posting a further increase in profitability: here EBIT grew by 26.4 percent (19.7 percent after adjusting for foreign exchange). In this region, too, Henkel Technologies reported significant profit growth. Further details relating to the performance of the individual business sectors can be found from page 40 forward.

CTA created to safeguard pension obligations in Germany

For some years now, we have been pursuing a global policy of changing over from defined-benefit to defined-contribution pension plans with a view to reducing the financial and biometric risks arising from the former. In 2004, we introduced our so-called Pensions 2004 plan for Germany, based on the accumulation of a mix of annuity and endowment units. Following on from this, the financial risks arising from existing defined-benefit pension entitlements in Germany were further limited in 2005 by switching from provisions-based financing to a capital-cover approach. Large portions of the obligations in Germany have now been ring-fenced in a Contractual Trust Arrangement (CTA) managed by the newly established Henkel Trust e.V. A major portion of the necessary capital was raised by Henkel KGaA through the issue of a subordinated hybrid bond with a volume of around 1.3 billion euros. Further non-operating assets amounting to 121 million euros were also transferred to Henkel Trust e.V.

Cost items

The cost of sales rose by 16.3 percent to 6,533 million euros in the year under review. This disproportionately high figure relative to sales is due primarily to the heavy price increases incurred for raw materials and packaging.

Gross profit improved by 9.4 percent to 5,441 million euros, although gross margin fell by 1.6 percentage points to 45.4 percent due to the substantial rise in costs. Expenses incurred for marketing, sales, distribution, customer support, advertising and sales promotion, at 3,409 million euros, were 8.0 percent above the figure of 3,157 million euros for the previous year.

At 324 million euros, expenditures on research and development were 52 million euros higher than in the previous year. The R&D ratio, i.e. research and development expenses expressed as a proportion of sales, rose by 0.1 of a percentage point to 2.7 percent. Administrative expenses increased by 9.8 percent to 627 million euros. This relatively low rise is mainly due to the success of our Advanced Restructuring measures initiated in 2004. At 24 million euros, current restructuring charges only slightly exceeded the 2004 figure of 22 million euros.

The cost items for the previous year have been restated to allow for the effects of recognizing share-based payments in the income statement as required by IFRS 2 (for further details on the associated effects, please refer to Notes 2, 3 and 5 to the Financial Statements).

With IFRS 3 – Business Combinations – coming into force on March 31, 2004, scheduled goodwill amortization ceased to be applied effective 2005, the requirement now being for an annual goodwill impairment test. There were no goodwill impairment losses in fiscal 2005. The figures for 2004 have been adjusted for comparison purposes.

Other operating charges and income

At 78 million euros, other operating charges were below the level of the previous year. Included under this heading in 2004 were non-capitalized incidental expenses arising from the Dial and ARL acquisitions and from the exchange of our strategic investment in Clorox. Major individual items falling under "Other operating charges" include foreign exchange losses from our operating businesses, and write-downs on miscellaneous assets. Other operating income amounted to 183 million euros, representing a substantial increase over the previous year. As well as higher foreign currency gains from our operating businesses, more operational provisions were released and certain fixed assets were written up.

Financial items

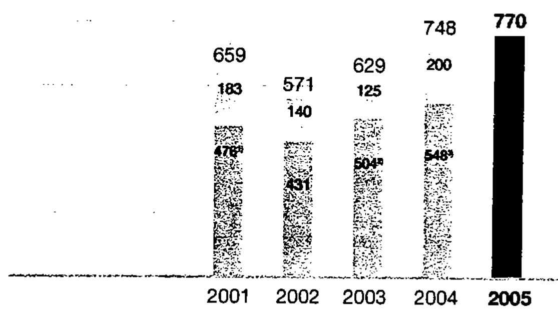
The financial items total fell by 131 million euros to −120 million euros, the prime causes being lower income from investments and an increase in net interest expense. The exchange of our investment in Clorox meant the loss of the associated income which, in 2004, amounted to 100 million euros. Meanwhile, income from our Ecolab investment increased by 7 million euros to 72 million euros thanks to positive business developments at that associate. Ecolab Inc. applied the new US-GAAP regulations, requiring the recognition of share-based payments in profit or loss, for the first time in its 2005 financial statements. As a result, income from associates fell by 6 million euros (the comparable adjustment for the previous year was likewise −6 million euros). The income from this investment in the previous year has also been adjusted for the goodwill amortization recognized in 2004 (+9 million euros). Our financial investment in the Lion Corporation, Tokyo, Japan, performed very well with an increase in value of 22 million euros over the comparable figure for the previous year.

Net interest expense excluding the interest element of pension provisions increased by 61 million euros, due primarily to the significant increase in US dollar interest rates. The negative comparison was further exacerbated by the absence of interest income of 10 million euros from the Cognis vendor note redeemed in May 2004. The interest element pertaining to pension provisions improved by 7 million euros due to higher-than-expected income from plan assets offset against interest expense.

Net earnings

Earnings before tax increased by 3.5 percent, from 1,007 million euros (2004: restated and comparable) to 1,042 million euros. Taxes on income amounted to 272 million euros. The tax rate was 26.1 percent, just above the comparable level of the previous year.

Net earnings before and after goodwill amortization
in million euros



[1] with Cognis and Henkel-Ecolab; 541 million euros incl. exceptional items
[2] 530 million euros incl. exceptional items
[3] restated and comparable; 1,738 million euros incl. exceptional items

Net earnings increased by 22 million euros, from 748 million euros (2004: restated and comparable) to 770 million euros. With minority interests amounting to 13 million euros, earnings after minorities totaled 757 million euros (2004: 747 million euros).

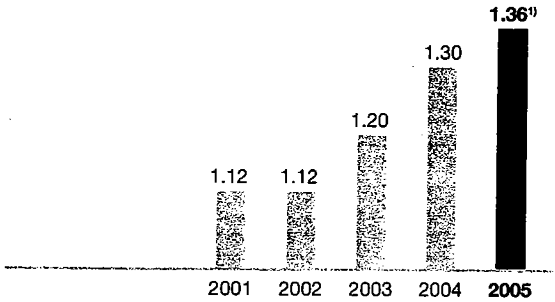
The annual financial statements of Henkel KGaA are summarized on page 109.

Dividends and distribution policy

In view of the positive earnings performance on the operating business side coupled with an encouraging cash flow, the proposal to be put to the Annual General Meeting will be for a 6 eurocent increase in dividends payable on both classes of shares. Amounts of 1.36 euros per preferred share and 1.30 euros per ordinary share will yield a payout ratio of 25.5 percent.

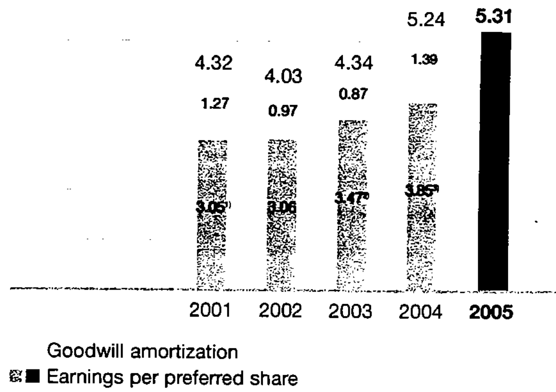
The payout ratio is calculated on the basis of earnings after minority interests. The level of dividend payout is primarily aligned to profit developments, and should be around 25 percent of Henkel Group earnings after minority interests and adjustment for exceptional items.

Preferred share dividends in euros



[1] proposed

Earnings per preferred share before and after goodwill amortization in euros



[1] with Cognis and Henkel-Ecolab; 4.77 euros incl. exceptional items
[2] 4.52 euros incl. exceptional items
[3] restated and comparable; 12.14 euros incl. exceptional items

Earnings per share (EPS)

Basic earnings per share are calculated by dividing earnings after minority interests by the weighted average number of shares outstanding during the reporting period. Earnings per preferred share rose from 5.24 euros in 2004 (restated and comparable) to 5.31 euros, and earnings per ordinary share grew from 5.18 euros in 2004 to 5.25 euros.

The Stock Incentive Plan introduced in 2000 resulted in dilution of earnings per preferred share as at December 31, 2005, as the options from all five tranches were "in the money". This effect derives from 270,170 preferred shares that could potentially flow back into the market. The resultant dilution in EPS amounts to 3 eurocents.

EVA® and ROCE

In fiscal 2005, the Henkel Group achieved a positive EVA® amounting to 201 million euros, clearly exceeding the comparable figure of 156 million euros generated in 2004. We also slightly improved our ROCE from 13.0 percent to 13.3 percent, despite significant capital expenditures. These metrics show that the Henkel Group is well positioned for ongoing profitable growth: Henkel generates value added. As in the previous year, all our business sectors achieved a positive EVA® outcome in fiscal 2005. For explanations of EVA® and ROCE, see page 20 f.

EVA® and ROCE by business sector[1] in million euros

	Laundry & Home Care	Cosmetics/ Toiletries	Consumer & Craftsmen Adhesives	Henkel Technologies	Corporate	Group
EBIT	433	321	185	345	–122	1,162
Capital employed	3,184	2,184	1,186	2,350	–167	6,737
WACC (11 %)	350	240	130	259	–18	961
EVA® 2005	**83**	**81**	**55**	**86**	**–104**	**201**
EVA® 2004	90	63	72	49	–118	156
ROCE 2005 (in %)	**13.6**	**14.7**	**15.6**	**14.7**	**–**	**13.3**
ROCE 2004 (in %)	14.8	14.0	19.3	13.2	–	13.0

[1] 2004 restated and comparable

Assets and financial analysis

Acquisitions and divestments

In order to expand its market position in heavy-duty detergents, **Laundry & Home Care** acquired the Biopon brand in Hungary, representing an annual sales volume of around 10 million euros. In all, the business sector invested 14 million euros in acquisitions in the year under review.

Consumer and Craftsmen Adhesives expanded its building adhesives business in particular through the following three acquisitions:

- Purchase of 73 percent of the voting shares in Chemofast ramcord GmbH, Willich, Germany, active in the supply of chemical fixing and anchorage systems; this extends the business sector's product portfolio for technically demanding applications. In 2004, Chemofast generated sales of 14 million euros.
- Acquisition of 49 percent of the shares and the management rights with respect to Polybit Industries Ltd., Sharjah, United Arab Emirates, a company in the business of making and selling waterproofing sealant products for buildings. This provides a good platform for supplying the rapidly growing construction industry in the region around the Arabian Gulf. In 2004, Polybit Industries realized sales in the region of 25 million euros.
- Purchase of the DIY and craftsmen sealing compounds business of Rhodia, France; this strengthens our position in the consumer and professional trade markets. In 2004, Rhodia generated sales of around 50 million euros with these products.

In all, our expenditure on acquisitions at Consumer and Craftsmen Adhesives amounted to 45 million euros.

By acquiring 76 percent of the shares in Converter Adhesives and Chemicals Pvt. Ltd. (CAC), Mumbai, India, **Henkel Technologies** has laid a good foundation for expanding our laminating adhesives business in the South East Asia region. In 2004, CAC achieved sales of 11 million euros. Acquisition of a majority holding in Huawei Electronics, Lianyungang, China, a manufacturer of epoxy sealing resins for semiconductors, safeguards our competitiveness as suppliers to those manufacturers of electronic components that are increasingly moving into China. Sales generated by Huawei Electronics in 2004 amounted to 18 million euros. In all, Henkel Technologies spent 24 million euros on acquisitions in the year under review.

Capital expenditures

Capital expenditures (excluding financial assets) in 2005 totaled 1,097 million euros.

2005 capital expenditures in million euros

	Continuing operations	Acquisitions	**Total**
Property, plant and equipment	393	97	**490**
Intangible assets	43	564	**607**
Total	**436**	**661**	**1,097**

Investments within our continuing operations in property, plant and equipment amounted to 393 million euros, 49 million euros more than in 2004. A major slice of this spend went into structural improvements such as merging our administrative, development and production operations and the standardization of information systems. A further portion was used to develop and expand production capacities. The major individual projects implemented in 2005 were as follows:

- Commissioning of an additional filling plant for Bref Power Cleaner in Düsseldorf, Germany (Laundry & Home Care)
- Commissioning of the second phase of our factory for manufacturing knifing cement compounds and tile adhesives in Bucharest, Romania (Consumer and Craftsmen Adhesives)
- Merging of the two major development centers in Madison Heights, USA (Henkel Technologies)
- Merging of three development and administrative operations in Hemel Hempstead, UK (Henkel Technologies).

Investments in intangible assets within our continuing operations amounted to 43 million euros, 17 million euros more than in the previous year.

Expenditure on property, plant and equipment in businesses acquired in 2005 totaled 97 million euros. Investments in acquired intangible assets amounted to 564 million euros, largely due to the first-time consolidation of Sovereign. Of this overall amount, goodwill accounted for 284 million euros, with the remaining 280 million euros being used primarily to acquire trademark rights, customer relationships and patents/technologies.

In the regional breakdown, our expenditure emphasis in 2005 lay in Europe and North America. The Sovereign and Orbseal acquisitions led to a further increase in the proportion of capital expenditures attributable to North America. Asia also saw a further expansion in its regional share of our investments in property, plant and equipment.

In 2006, the focus is likely to be on expenditures for property, plant and equipment in Europe. We will also be investing in North America and Asia.

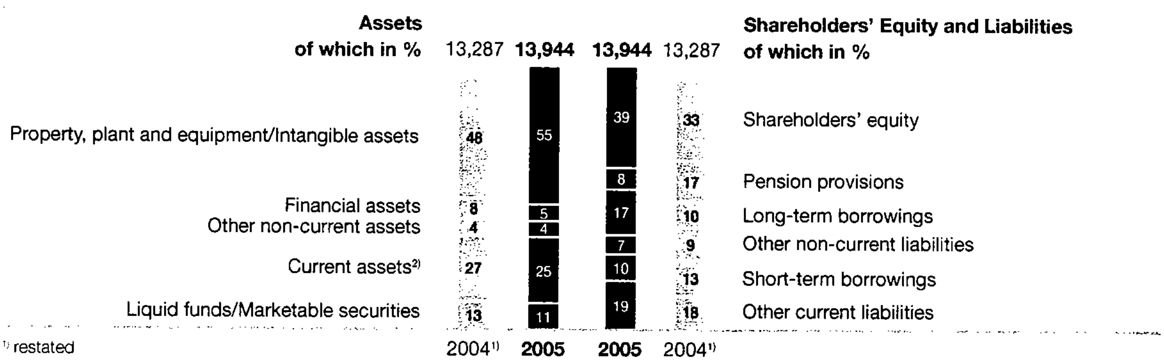
Important projects in the Laundry & Home Care business sector will involve investment in production facilities for the manufacture of new, innovative products. At Consumer and Craftsmen Adhesives, we intend to construct a further building adhesives plant in Eastern Europe. Henkel Technologies expects investments to be geared primarily to expanding capacities in Asia and the USA.

Balance sheet structure

The balance sheet structure has been reclassified in accordance with the requirements of IAS 1 from its former liquidity-aligned structure to one separating current and non-current assets and liabilities. The structure for the previous year has been adapted accordingly (for further details on the effects of restatements on the balance sheet items, see page 69 and also Notes 16, 27 and 28 to the Financial Statements). In fiscal 2005, total assets rose by 657 million euros to 13,944 million euros.

The increase in total assets resulted from the rise of intangible assets of 1,106 million euros – predominantly due to the first-time consolidation of Sovereign and positive currency translation effects. Property, plant and equipment increased by 237 million euros as a result of acquisitions and investments in continuing operations, the latter amounting to 393 million euros, thus exceeding scheduled depreciation by 114 million euros. Financial assets decreased significantly by 357 million euros. This was primarily due to the first-time

Balance sheet structure in million euros



[1] restated
[2] including assets held for sale

consolidation of Sovereign and to the allocation of the claim against Cognis, with respect to indemnification of pension obligations, to the trust assets of the new CTA. Current assets decreased by 419 million euros. Compared to the growth in sales, inventories and trade accounts receivable underwent only a minor increase, coming in just slightly above the level of the previous year. Liquid funds and marketable securities declined by 483 million euros, largely due to dept repayments. Assets held for sale (142 million euros) were separately recognized for the first time in 2005, in accordance with the requirements of IFRS 5. This item largely relates to the held-for-sale assets of the Dial food business (primarily intangible assets, property, plant and equipment, inventories and goodwill).

Shareholders' equity increased substantially, from 4,346 million euros to 5,399 million euros. The addition resulted primarily from net earnings of 770 million euros (of which 13 million euros as minority interests) and positive currency translation effects amounting to 602 million euros. Our dividend payments of 190 million euros and the actuarial gains/losses of 140 million euros (after tax), set off against reserves for the first time this year, reduced equity significantly. A total of 564 million euros was transferred from net earnings to revenue reserves. The equity ratio rose from 32.7 percent to 38.7 percent. Under non-current liabilities, pension provisions fell by 1,157 million euros, while long-term borrowings rose by 1,015 million euros. This exchange of liabilities is the result of the ring-fencing of our pension obligations in Germany. A hybrid bond amounting to 1.3 billion euros was issued in November in order to finance the plan assets covering these obligations. The bond is recognized under long-term borrowings. The proceeds have been allocated to the Contractual Trust Arrangement, thus reducing the pension obligations. In all, non-current liabilities fell by 354 million euros. Current liabilities fell by 42 million euros. The decrease in short-term borrowings of 384 million euros was largely offset by an increase in other current liabilities and provisions (+108 million euros) and in trade accounts payable (+234 million euros).

The complete consolidated balance sheet of the Henkel Group can be found on page 61.

Cash flow statement

At 1,254 million euros, cash flow from operating activities was 309 million euros above the comparable prior-year figure. A major cause for this significant rise was the 180 million euro increase in earnings before

Cash flow statement (summarized) in million euros

	restated 2004	restated and comparable 2004	**2005**
Operating profit (EBIT)	1,916	996	**1,162**
Income taxes paid	–276	–276	**–265**
Amortization/depreciation/write-ups of non-current assets (excl. financial assets)	851	320	**334**
Net gains/losses on disposal of non-current assets (excl. financial assets)	–1,785	–15	**–6**
Change in net working capital	217	–80	**29**
Cash flow from operating activities	**923**	**945**	**1,254**
Capital expenditures on intangible assets	–26	–26	**–43**
Capital expenditures on property, plant and equipment	–344	–344	**–393**
Proceeds on disposal of subsidiaries and business entities	2,282[1]	–	**–**
Proceeds on disposal of other non-current assets	481[2]	68	**43**
Dividends received/Net interest	–92	–92	**–177**
Free cash flow	**3,224**	**551**	**684**

[1] exchange of strategic investment in Clorox

[2] includes 413 million euros from redemption by Cognis of vendor note

interest, tax, depreciation and amortization (EBITDA). The change in net working capital yielded a positive effect of 109 million euros, due mainly to a substantial decrease in trade accounts receivable and an increase in trade accounts payable. There was also a reduction in inventories.

Cash flow from investing/acquisition activities amounted to –478 million euros, around half the figure for the previous year due to acquisition activities being at a much lower level. At 436 million euros, investments in continuing operations were 66 million euros above the prior-year level. Of this amount, Laundry & Home Care accounted for 138 million euros, Cosmetics/Toiletries for 51 million euros, Consumer and Craftsmen Adhesives for 54 million euros, Henkel Technologies for 156 million euros, and Corporate for 37 million euros.

Cash flow from financing activities was –1,468 million euros compared with a net inflow of 739 million euros in the previous year. The main cause for the change was the reduction in borrowings achieved in 2005. This was implemented through a decrease in liquid funds and utilization of the free cash flow generated in the course of the year. Also reflected in the change in borrowings is the hybrid bond, which added approximately 1.3 billion euros, compensated by the allocation to the Contractual Trust Arrangement. In the previous year, borrowings were increased by around 1 billion euros as a result of the funds used to finance the acquisitions made.

Free cash flow, shown before capital expenditures on financial assets/acquisitions and before dividends paid, amounted to 684 million euros, 133 million euros higher than in the previous year. After adjusting for the utilization of provisions for our Advanced Restructuring measures and effects arising from the refinancing arrangements undertaken with respect to Dial and Sovereign, free cash flow increased by 313 million euros, from 551 million euros to 864 million euros.

The detailed cash flow statement can be found on page 62.

Key financial ratios

Over all, our key financial ratios developed very well in 2005, reflecting our strengths in terms of both earning power and net assets. The debt coverage ratio additionally benefited from the equity-like features of the hybrid bond. Only the interest cover ratio fell compared with the previous year, due to an increase in interest expense.

Key financial ratios

	restated and comparable 2004	2005
Interest coverage ratio *(EBITDA ÷ net interest expense including interest element of pension provisions)*	8.4	**7.1**
Debt coverage ratio in % *(net earnings before minority interests + amortization and depreciation + interest element of pension provisions ÷ net borrowings and pension provisions)*[1]	31.6 %	**39.9 %**
Equity ratio in % *(equity ÷ total assets)*	32.7 %	**38.7 %**
Gearing *(net borrowings and pension provisions ÷ equity)*	0.85	**0.68**

[1] hybrid bond included on 50 % equity basis

The remuneration report provides an outline of the compensation system for the Management Board, the Supervisory Board and the Shareholders' Committee.

Remuneration of the Management Board

Regulation

The remuneration of the members of the Management Board is regulated by the Human Resources subcommittee of the Shareholders' Committee, which regularly reviews the compensation system in terms of structure and amounts involved.

Structure and amounts

The remuneration of the Management Board is made up of three components: a fixed salary, a variable short-term earnings-related incentive in the form of a cash payment, and a variable performance related long-term incentive in the form of share options or, effective 2005, a share-based cash payment.

In keeping with the objective of achieving a sustainable increase in shareholder value, the remuneration model for the Management Board exhibits a significant performance-related component. This is reflected in the relationship between variable remuneration and fixed salary. If all performance targets are achieved, total remuneration is made up, on average, of around 26 percent in fixed salary, 67 percent in short-term incentive and 7 percent in long-term incentive. The details:

Fixed salary

The amount of fixed salary is determined on the basis of the functions and responsibilities of the post and prevailing market conditions.

Additional non-cash and secondary benefits provided largely relate to insurance and the provision of a company car.

Short-term incentive

The performance criteria governing the short-term incentive are primarily return on capital employed (ROCE) and earnings per share (EPS) plus, to a lesser extent, business unit performance. Payment is made in arrears on an annual basis as a function of the performance achieved over the financial year.

Long-term incentive

Up to 2004, in addition to the above remuneration components, members of the Management Board also received option rights in accordance with the Stock Incentive Plan introduced in 2000. The Stock Incentive Plan was replaced in 2005 by a new arrangement. Under this arrangement, every eligible member of the Management Board receives the cash value equivalent to a total of up to 3,600 shares per financial year (= tranche) depending on the absolute rise in the quoted market price of the Henkel preferred share and the increase in earnings per Henkel preferred share (EPS) over a period of three years (performance period). For further details, see explanation of share-based remuneration components in the Notes to the Financial Statements on page 98 ff.

Pension benefits

The retirement pension for members of the Management Board appointed before January 1, 2005 is determined on the basis of a certain percentage of the final fixed salary amount. The same maximum percentage applies for all Management Board members, and this corresponds to market-related fixed salary percentages for directors' pensions paid by DAX-listed corporations. The actual percentage individually assigned to each officer is made up of two components: the so-called base percentage, which is derived from the vested pension rights accrued within the Company up to appointment to the Management Board, and the annual percentage increase in the base percentage rate over the period of service of the officer as a member of the Management

Board. As a rule, the maximum pension entitlement is achieved by the time the candidate reaches regular retirement age.

Effective January 1, 2005, the pension arrangements for new Management Board members have been changed to a unit-based system. These officers receive unit-based benefits in the form of an annuity and an endowment component. The amount of benefits are aligned to the start-up unit derived from the vested pension rights accrued prior to the officer joining the Management Board, and the individual annual contributions. The annual contribution is calculated for both the annuity and the endowment components as a certain percentage of the fixed salary, which is the same for all members of the Management Board, plus a certain percentage of the short-term incentive. This ensures that the superannuation package is also performance-related.

Remuneration of the Supervisory Board and of the Shareholders' Committee

Regulation

The currently applicable remuneration rules for the Supervisory Board and the Shareholders' Committee were approved by the Annual General Meeting of May 8, 2000 and, in relation to the long-term incentive, by the Annual General Meeting of April 18, 2005. They are contained in articles 17 and 33 of the Articles of Association.

Structure and amount

The structure and amount of the remuneration are commensurate with the size of the Company and the functions performed by the Supervisory Board and Shareholders' Committee respectively.

The remuneration is made up of three components, a fixed fee, a variable, dividend-related bonus and a variable long-term performance-related incentive. The details:

Fixed fee

Each member of the Supervisory Board and of the Shareholders' Committee receives a fixed fee of 20,000 euros and 50,000 euros per year respectively. The higher fixed fee payable to members of the Shareholders' Committee as compared with members of the Supervisory Board is due to the fact that, as required by the Articles of Association, the Shareholders' Committee is involved in business management activities.

In addition, each member of the Supervisory Board also receives a meeting attendance fee of 500 euros.

Dividend bonus

Each member of the Supervisory Board and of the Shareholders' Committee further receives an annual bonus of 2,000 euros for every 0.05 euros the dividend paid out for the prior year is higher than 0.75 euros.

Long-term incentive

As a long-term incentive, each member of the Supervisory Board and of the Shareholders' Committee is entitled each year to an additional cash payment, the amount of which depends on the increase in earnings per preferred share over a three-year reference period. The earnings per preferred share of the financial year preceding the payment-related year is compared with the earnings per preferred share of the second financial year following the payment-related year. If the increase is at least 15 percent, an amount of 600 euros is paid for each full percentage point of the total achieved increase. If the increase reaches a minimum of 21 percent, the amount paid per percentage point is 700 euros, and if the increase is a minimum of 30 percent, the amount paid per percentage point is 800 euros.

The total of the dividend bonus and the long-term incentive is, however, limited to 50,000 euros.

Remuneration for chairpersons/vice-chairpersons/ subcommittee members

The Chairperson of the Supervisory Board and the Chairperson of the Shareholders' Committee each receives double the amount, and the Vice-Chairperson in each case one-and-a-half times the amount accruing to an ordinary member. Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each additionally receive remuneration equivalent to the amount accruing to a member of the Shareholders' Committee; if they are the chairperson of one or more subcommittees, they receive double.

Employees

The number of people employed by the Henkel Group at the end of the year under review was 52,565.

Workforce numbers increased by around 2,450 in 2005 as a result of the acquisitions. The largest increases came from the acquisitions Huawei Electronics and Polybit Industries, and from the first-time consolidation of Sovereign. Excluding Sovereign and the acquisitions, employee numbers would have decreased by 2.2 percent to around 50,100. The average number of employees at the Henkel Group in the year under review was 51,724. The proportion of employees outside Germany increased to around 80 percent.

Per capita sales increased by 9.2 percent to 231,500 euros, and Henkel Group payroll costs increased by 259 million euros to 2,273 million euros. The payroll cost ratio – this describes the relationship between payroll costs and sales – held steady at 19.0 percent.

Again in 2005, we trained more young people than were actually needed by the Company. At the end of the year, we had 464 trainees and apprentices under contract in Germany. Henkel also supports school-leavers as they make the transition into professional life – we were involved, for example, in preparing the "Business Requirements Catalog" that provides high-school students with information on what kind of candidates prospective employers are looking for. We also participated in the youth project "MedienBox STEP 21" that encourages young people to take a more pro-active approach to their own future and that of society as a whole.

In order to provide a capital base as cover for the main portion of our pension obligations in Germany, Henkel borrowed 1.3 billion euros from the capital market through the issue of a hybrid bond (mixed instrument comprising debt and equity capital). The money thus raised was allocated to a Contractual Trust Arrangement (CTA). The pension assets have thus been ring-fenced from the Company's assets, enabling them to be administered as a special-purpose fund. This step serves both to strengthen our own financial position and to further safeguard the pensions of our employees and retirees in Germany.

In the wake of the ongoing globalization of the Group, we have adapted our personnel policies to add greater emphasis to aspects such as diversity and talent management. Henkel is committed to embracing diversity and to utilizing the opportunities arising from the differences between our employees to their benefit and to the benefit of the Company. The "Triple 2" personnel development concept is also being used to drive forward the process of internationalization within the Group. Through this scheme, managers

Employees (as of December 31)

	2001	%	2002	%	2003	%	2004	%	**2005**	**%**
Europe/Africa/Middle East	32,030	68.7	34,736	71.5	34,189	70.3	33,692	65.8	**33,731**	**64.2**
North America	4,675	10.0	4,474	9.2	4,181	8.6	6,772	13.2	**7,271**	**13.8**
Latin America	2,870	6.2	3,042	6.2	3,946	8.1	4,325	8.5	**4,208**	**8.0**
Asia-Pacific	7,048	15.1	6,386	13.1	6,312	13.0	6,411	12.5	**7,355**	**14.0**
Total	**46,623**	**100.0**	**48,638**	**100.0**	**48,628**	**100.0**	**51,200**	**100.0**	**52,565**	**100.0**

are able to gain experience in two different business sectors, two different countries and two different functions, fostering their adaptability to foreign cultures and increasing their functional flexibility, reach and expertise.

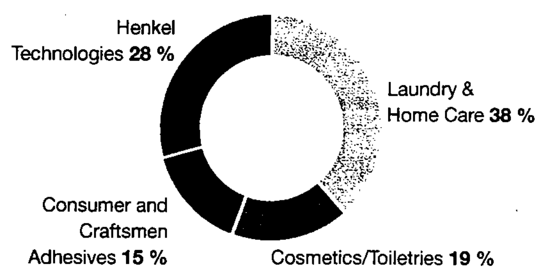
As a permanent feature of our employee support program, we offer a range of services geared toward reconciling the demands of work and family life. In 2005, Henkel was recognized for our exemplary approach in this regard, garnering the title – conferred by the Federal Ministry for Family Affairs and presented by the Federal Chancellor – of Germany's most family-friendly large company.

Procurement and production

Fiscal 2005 was characterized by a significant increase in the market prices for our raw materials and packaging. With certain long-term purchase contracts still in force in 2004, we were able in part to avoid or at least delay price rises in response to the upward cost spiral that began in the second half of the year. In 2005, however, we were no longer able to escape these effects, due in part to the sharp rise in the cost of oil. Other reasons for the price increases can be found in structural scarcity in relevant processing capacities, further consolidation in the chemicals industry and the persistently high demand for commodities being generated by Asia's burgeoning industrial activity. Natural disasters – specifically the hurricanes in the USA – further exacerbated the capacity and price situation. With increasing scarcity in the markets, some suppliers had to invoke "force majeure" and withdraw from their supply obligations. In this situation, Henkel's sourcing policy of entering into strategic cooperation agreements with preferred vendors proved invaluable. Indeed, the Company remained virtually unaffected by the "force majeure" factor.

Due primarily to the increase in raw material prices, but also partly as a result of acquisitions, the cost of raw materials, supplies, packaging, merchandise and outside services increased to 5.0 billion euros (2004:

Purchase volumes: Raw materials, packaging and merchandise by business sector



4.4 billion euros). Past analyses have shown that the five most important commodities account for around 15 percent and the five most important suppliers for about 11 percent of the procurement volume. Henkel is thus extensively independent of individual raw materials and vendors.

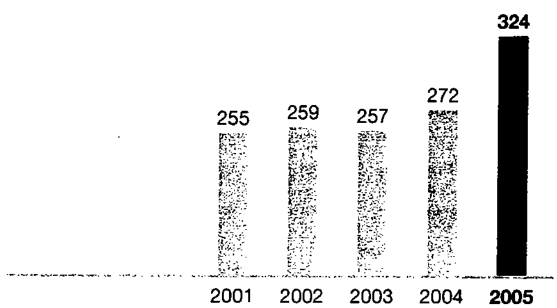
We have instigated a raft of measures to combat unfavorable material price developments. In addition to projects to reduce manufacturing cost and extend our vendor portfolio, we have expanded our sourcing activities within Eastern Europe and Asia. We have also succeeded in making substantial savings in the area of auxiliary materials and services. The continuing expansion in our use of e-business instruments and supply process improvements likewise contribute to cost optimization.

Henkel has production sites in 52 countries around the world. Our largest facility is in Düsseldorf, where we manufacture not only detergents and cleaning products but also adhesives for the DIY and craftsmen segment and products for our industrial customers.

Research and development

Expenditure on research and development at the Henkel Group amounted to 324 million euros, compared with 272 million euros in the previous year. In 2005 this corresponds to a share of sales of 2.7 percent (2004: 2.6 percent). Of the total, 38 million euros went into central research, while 286 million euros was allocated to the product and process development activities of the

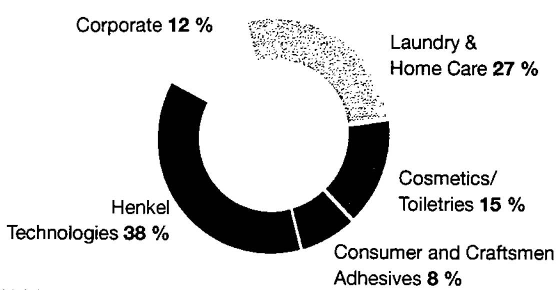
R&D expenditures in million euros



	2001	2002	2003	2004	2005
R&D ratio[1] (research expenditures as a proportion of sales)	2.7 %	2.7 %	2.7 %	2.6 %	2.7 %

[1] comparable

R&D expenditures by business sector



business sectors. Expenditure on technical services for our customers amounted to an additional 103 million euros. The average number of employees working in research, product development and applications engineering was approximately 2,700 (2004: 2,800), with the majority operating in Germany, France, Ireland, Japan and the USA.

We utilize all the resources of R&D information available to us from around the world in our endeavor to secure the sustainable success of our Company, deploying both internal and external expertise for the purpose of strengthening our product portfolio and developing new markets. Through their work, our scientists and engineers lay the basis for our business success of tomorrow, safeguarding the innovation capabilities and earning power of Henkel over the long term.

One of the main areas of focus for the Central Research unit as well as the operational research and development departments in 2005 was that of improving the innovation process. Initiatives were introduced and implemented in order to optimize the individual process stages – from idea definition and feasibility studies to specific research and development projects for the market. The innovation process is supported by an efficient project management regime.

With Central Research being more aligned to the long term, our scientists there are engaged in investigating specific areas of competence in biology, chemistry and technology for the purpose of developing innovative concepts for new products and production processes. The findings of Central Research are then transferred to the business sectors where they are utilized with a view to expanding our product portfolio.

The following are among the projects currently being pursued at Central Research:

- Achievement of superior bleaching and cleaning performance for our leading brands
- Investigation into the cellular regulation of hair and skin in order to identify potential actives for hair and skin cosmetics
- Development of nature-imitating, highly effective, nanotechnological actives for toothpastes capable of effectively repairing sensitive teeth
- Fatigue-resistant high-performance adhesives and innovative composites for employment in the automotive and aerospace industries
- Modeling, simulation and optimization of product properties and processes with advanced computer-aided techniques.

Again in 2005, our Central Research unit produced outstanding results. And for the second year since 2004, we have selected a number of exemplary achievements for our "Research/Technology Invention Award". Each of the prize-winning projects provides Henkel with future potential for business development or cost reduction:

- High-performance composite systems for improved long-term bonding of aluminum with polyurethane adhesives
- Automated process for the rapid detection of germs in filterable raw materials and products
- Innovative production technology for the manufacture of nanomaterials
- Rapid screening for hair care actives using a Henkel-developed hair follicle model
- Adhesives and sealants for the reliable and environmentally compatible prevention of fungal mold attack in the household.

The research and development units of our four operational business sectors are very closely aligned to the requirements of our markets and customers.

At Laundry & Home Care, for example, so-called InnoPower teams have been created for each product category with the specific task of creating tomorrow's innovations. Multifunctional, interdisciplinary and international in their composition, these teams investigate how we can solve today the consumer's problems of tomorrow. In the "Best Innovator 2005" competition organized by A.T. Kearney and the German business magazine "Wirtschaftswoche", the Laundry & Home Care business sector took first prize in the "Innovation Strategy" category.

You can find out more about the InnoPower initiative of Laundry & Home Care by viewing a short film available at www.henkel-detergents.com.

As in previous years, we selected a number of exemplary research and development projects for the "Fritz Henkel Award for Innovation". In 2005, the plaudits went to four interdisciplinary project teams in recognition of their efforts in the realization and commercialization of the following concepts:

- WC FreshSurfer designed by Alessi: Superior, patented dual-chamber technology for dispensing the active substance, incorporated in an original, high-quality Alessi design
- Fa Yogurt Shower Care: Innovative shower product with yogurt protein to simultaneously clean and refresh the skin
- Flextec: A highly versatile, flexible bonding technology with unique advantages for sealants and assembly adhesives
- Purmelt MicroEmission: Innovation in polyurethane hotmelts that significantly raises technical standards in occupational safety and environmental protection in industrial production.

We protect our technologies around the world with more than 7,000 patents. There are also over 5,200 patent applications pending and we own more than 2,000 registered designs as a means of protecting our intellectual property. Further information on our research and development activities can be found on our website www.innovation.henkel.com.

Marketing and distribution

The marketing and distribution activities of our business sectors are aligned to the specific requirements of our various customer groupings.

At *Laundry & Home Care*, marketing is largely managed on a global basis, while distribution is regionally controlled. Our direct customers are the grocery retail trade with distribution channels in the form of supermarkets, mass merchandisers/hypermarkets and discount stores. In Western Europe, drug stores are also extremely important, while in the markets outside Europe and North America there is still a large proportion of sales channeled via wholesalers and distributors. Although the trade provides our main customers in distribution terms, marketing is focused on the consumer. Market research and analysis work is carried out accordingly, with the appropriate advertising strategies and innovation activities being developed on the basis of the ensuing findings.

At *Cosmetics/Toiletries*, our marketing strategies are centrally planned and globally implemented with respect both to our consumer brands and the salon business. Our distribution activities, on the other hand, are managed according to national criteria. Consumers are primarily addressed through media advertising and point-of-sale activities. Consumers purchase our products via the retail trade. The main distribution channels are specialist drug stores, the grocery trade and department stores. Our customers in the salon business are served by a dedicated field sales force on the basis of product demonstrations and the provision of technical advice. We further offer specialist seminars and training courses at our 43 Schwarzkopf Academies around the world.

Our *Consumer and Craftsmen Adhesives* business sector serves a wide range of customer groupings, and these have to be individually addressed through a properly differentiated distribution structure. Users of our products are not supplied directly but rather via the trade. While supermarkets, DIY stores and specialist retailers are essential to the private user, professional craftsmen tend to purchase from various types of specialist wholesalers. For Henkel as a supplier of leading brand products, communication with end users is also of critical importance. For the private consumer, we primarily use media advertising with complementary point-of-sale activities. As high-volume users, professional craftsmen are served and supported directly by our field sales organization with technical advice, product demonstrations and training courses.

The marketing activities of *Henkel Technologies* are managed on a global scale. Our customers in the form of industrial users and manufacturers are supplied both directly and also via an extensive distributor network. Our main aim is to provide our customers with comprehensive advice, solutions to their problems and the consistent quality they require. In the industrial maintenance, repair and overhaul segment, we supply our end users and processors via an established system of engineering wholesalers who exert a considerable influence over what their customers in both the industrial and the automotive repair and servicing sectors buy.

Sustainability

Henkel is dedicated to sustainability and corporate social responsibility, as is clearly stated in our corporate values. We are convinced that effective environmental protection and good corporate citizenship are essential to our entrepreneurial success.

Henkel joined the Global Compact of the United Nations in July 2003, making a public commitment to uphold human rights, including the basic rights of employees, to promote environmental protection and to oppose all forms of corruption. Our "Code of Corporate Sustainability" and our "Code of Conduct" together with our related internal standards governing safety, health, environmental protection and corporate citizenship both regulate and typify our approach to social responsibility. We have embedded the corresponding stipulations relating to our business processes within our integrated management systems. Adherence to these Group-wide requirements is critically examined on a regular basis by internal audits.

Day in, day out, people put their trust in Henkel brands and technologies in more than 125 countries around the world. First-class quality means not only ease of application, convenience and high product performance but also comprehensive product safety and environmental compatibility. Consequently, right from the initial research and product development stages, we ensure that when used as intended our products and technologies are safe for health and the environment.

Henkel thus also supports the basic objective underlying the widely publicized legislative initiative of the European Commission, known by the acronym REACH, to register, evaluate and authorize all chemicals and to limit their application as appropriate. The proposal of the EU commission for implementing this basic concept as a regulatory instrument must, however, be improved. Henkel is actively involved in the ongoing evaluation process. The formulated rules for assessing product ingredients can – as far as is currently known – be integrated within our existing processes.

For many years, Henkel has been using ingredients based on renewable raw materials, with a view to generally optimizing product characteristics where feasible, under ecological, economic and social criteria. One example of this can be found in surfactants – the wash-active substances we use in detergents and shower gels. Renewable raw materials also provide the basis of key components in our glue sticks, wallpaper pastes and packaging adhesives. In the case of the Pritt Stick, for example, such substances make up 90 percent of the dry mass.

Thanks to our extensive commitment to sustainable development, Henkel was once again represented in various international sustainability indexes in 2005, including the Dow Jones Stoxx Sustainability and FTSE4Good. Scoring high in the categories "Customers and Quality", "Environment" and "Social Involvement", Henkel headed the league of DAX corporations as ranked by the sustainability investment research agency Scoris.

Henkel is not an energy-intensive company. Hence only our power station in Düsseldorf-Holthausen is included in the emissions trading system of the European Union. Thanks to particularly efficient cogeneration technology implemented in the Henkel power plant, we have been allocated emission certificates commensurate with expected demand levels. Charges for trading and monitoring, and also any additional emission certificates that may prove necessary in the event that those allocated are insufficient, are unlikely to significantly impact production costs.

Once again in 2005 we were able to improve on significant indicators that characterize our sustainability performance. Worthy of particular mention is the drop in occupational accidents by 21 percent compared with the previous year, evidencing the efficacy of our health and safety programs. Thanks to further optimization of our production processes, we were also able to reduce energy consumption by 6 percent relative to production volumes.

As a responsible corporate member of society, we provide financial and material support for social projects, the environment, education, science, health, sport, art and culture. These contributions emanate from central sources within the Henkel Group, from our local sites and also from our brands and technologies.

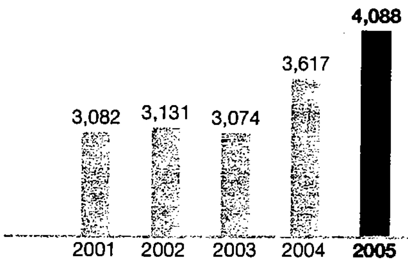
Since 1998, we have also been active in supporting the voluntary work performed by our employees and retirees. In 2005, under our worldwide MIT initiative (= Make an Impact on Tomorrow), Henkel supported a total of 966 non-profit-making projects, of which 245 were children's projects.

We also feel that it is important from the perspective of our social involvement to convey to high-school and university students our understanding of and commitment to the concept of responsible corporate management. We have, for some years now, been supporting SIFE (Students In Free Enterprise), an international organization committed to social responsibility, entrepreneurship and helping people to help themselves. In 2005, Henkel received an award for its activities on behalf of SIFE and its ideals.

Since 1992, we have published an annual Environment Report, replaced in 2001 by our annual Sustainability Report. This publication documents the high priority assigned to sustainability by our Company and at the same time satisfies our reporting obligations with respect to the Global Compact. Further background information and the latest news on sustainable development at Henkel can be found on our website www.sd.henkel.com.

Laundry & Home Care

Key financials[1)]
Sales in million euros



in million euros	2004[2)]	**2005**	**Change**
Sales	3,617	**4,088**	13.0 %
Proportion of Group sales	34 %	**34 %**	0 pp
Operating profit (EBIT)	350	**433**	23.7 %
Return on sales (EBIT)	9.7 %	**10.6 %**	0.9 pp
Return on capital employed (ROCE)	14.8 %	**13.6 %**	–1.2 pp
EVA®	90	**83**	–8.1 %

pp = percentage points

[1)] calculated on the basis of units of 1,000 euros
[2)] restated and comparable

Significant increase in share of sales outside Western Europe

Organic sales growth of 3.0 percent

Operating profit (EBIT) up 23.7 percent

ROCE at 13.6 percent

Economic environment and market position

Following the decline of 2004, the world laundry and home care market bounced back in 2005 with growth of around 2 percent. In countries outside Western Europe and the USA, this improvement was driven not only by good volume growth but also by price increases and growing demand for higher-quality products. The markets of Eastern Europe developed particularly well, with Russia ahead of the field. In Western Europe and the USA, on the other hand, the trend continued to be slightly downward. While the markets for household cleaners grew to a degree, the laundry product markets continued to suffer from pricing pressures. In a highly competitive environment, most market participants endeavored to defend or expand their market shares by stepping up their promotional activities and absorbing cost increases.

In the markets of relevance to us, our Laundry & Home Care business sector enjoys leading positions on a worldwide scale.

Strategy

We operate in the laundry care and household cleaner segments. Our laundry products comprise heavy-duty detergents and also special detergents, which were brought together under one organizational roof in the year under review. We are steadily expanding our global market platform on the basis of our leading position in Europe, with regional growth taking priority over the development of additional product categories. Recently, the USA has taken over as the country in which we generate our highest sales worldwide. There, too, is potential to further expand our position. The food business included in the Dial acquisition does not constitute one of our strategic core competences.

In the next few years, the emphasis will be on driving organic growth in sales. Our objective is to grow faster than the market in every country. This will enable us to further improve our profitability.

Sales development

	2005
Change versus previous year	**13.0 %**
Foreign exchange	**0.8 %**
Adjusted for foreign exchange	**12.2 %**
Acquisitions/Divestments	**9.2 %**
Organic	**3.0 %**

We expect to achieve growth through innovations and the expansion of our product portfolio, particularly in the countries outside Europe. Our investments in the household cleaner markets here offer great potential for Henkel.

Sales and profits

With the market picking up, we were able to achieve above-average increases in sales and gain further market shares. At 4,088 million euros, sales were 13.0 percent above previous year. Organic growth amounted to 3.0 percent. The prime regional driver of organic growth was once again Eastern Europe, and particularly Russia where we were able to significantly further expand our strong number 2 position. We also achieved substantial sales increases in Turkey as well as in China, India and Mexico. The encouraging sales performance reported in these countries resulted from a combination of good volume growth, successful new product launches and selected price increases.

In Western Europe, we succeeded in gaining further market share. Despite a downturn in the markets, we were able to increase sales. In North America, too, the laundry and home care markets underwent a slight decline, yet we were again able to grow our market shares to a degree. The insecticides and household cleaner businesses acquired from Clorox performed well.

Operating profit (EBIT) rose to 433 million euros. Compared with the previous year, this represents an increase of 23.7 percent, attributable primarily to the acquisition of Dial and the businesses taken over from Clorox. Our results in 2005 were dampened somewhat by the significant rise in raw material prices, as the degree to which these could be passed on to our largest markets was limited. Nevertheless, we were able to absorb large portions of these cost increases through efficiency improvements in our formulations and production activities, combined with strict cost discipline in our marketing, distribution and administrative operations. We also profited from the savings arising from the restructuring measures initiated. Return on sales increased appreciably, by 0.9 of a percentage point to 10.6 percent.

Despite the substantial improvement in operating profit, return on capital employed (ROCE) declined slightly to 13.6 percent. The reason for this was the increased capital base arising from the acquired businesses.

Market segments

The growth achieved in the *laundry* segment, particularly in the largest category – heavy-duty detergents – is mainly due to promotional activities. Growth of our special detergents was generated by stronger penetration in the markets of Eastern Europe and Latin America. In Western Europe, on the other hand, our detergent sales stagnated, with increases in market share being canceled out by pricing factors. In this segment, our innovation activities focused on revising fragrances, expanding our portfolio to include dermatologically compatible "sensitive" products, and combination products comprising heavy-duty detergents and softeners.

The *home care* segment performed very well, with most of the categories here proving to be less price-sensitive and more innovation-driven. The share of sales accounted for by countries outside Europe underwent a further increase thanks to both good organic growth and the acquisition of the Clorox businesses. In Europe, we were able to generate encouraging volume and value growth with a number of successful innovations, such as our Pril Power Spray, our WC cleaner in the "Alessi" design and further product variants of our highly successful Bref Power household cleaner. All these new products offer particularly good margins.

Capital expenditures

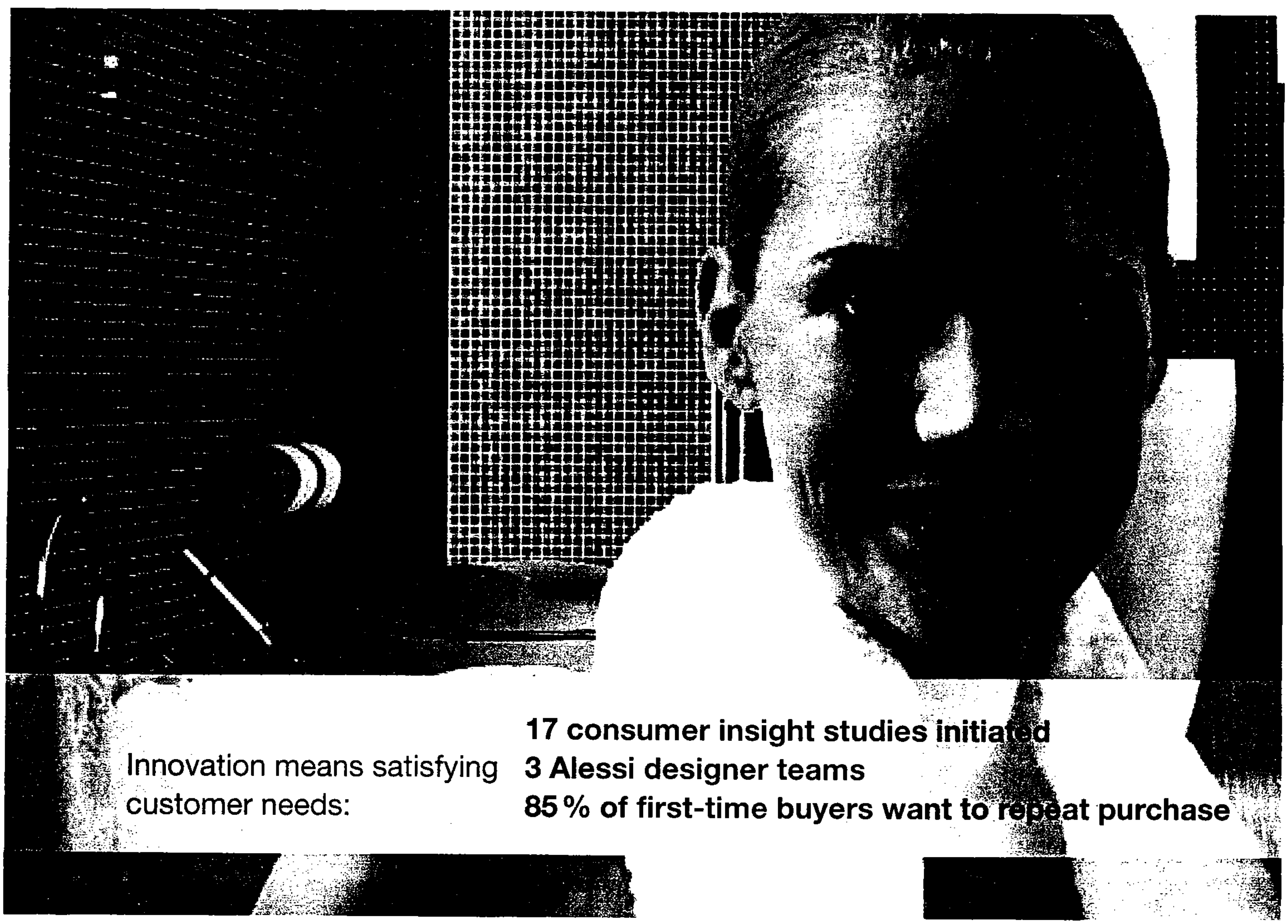
During the year under review, we invested in a number of sites designated to receive production volumes transferred from plants in France and Germany. In Düsseldorf-Holthausen, an additional filling operation for Bref Power cleaner came on stream. In Europe, we expanded the capacities for our rapidly growing specialty cleaning products, and in the USA we invested in production of the household cleaners acquired from Clorox. Total 2005 capital expenditures in property, plant and equipment amounted to 132 million euros, following 137 million euros in 2004.

Outlook

We expect the markets of relevance to us to expand by around 2 percent in 2006. We will exploit to the full any scope that we have for increasing our product prices.

We expect the rate of raw material price increases to ease and have initiated measures in order to significantly increase our innovation capabilities and efficiency.

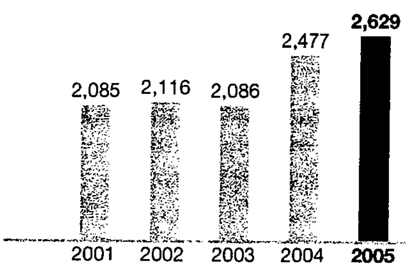
We expect organic sales growth in 2006 to be above the market average, accompanied by a further increase in operating profit.



We see particular opportunities arising from the market dynamism being exhibited in Eastern Europe, especially in Russia, and in the Middle East. With our strong market positions, we are likely to benefit significantly from the rapid growth of these regions. In global terms, we expect price increases to become more acceptable to the market, enabling us to more easily offset the rises in material and energy costs. The primary risks affecting our businesses lie in the possibility of a further substantial increase in these costs.

Cosmetics/Toiletries

Key financials[1)]
Sales in million euros



in million euros	2004[2)]	2005	Change
Sales	2,477	2,629	6.2 %
Proportion of Group sales	23 %	22 %	–1 pp
Operating profit (EBIT)	290	321	10.5 %
Return on sales (EBIT)	11.7 %	12.2 %	0.5 pp
Return on capital employed (ROCE)	14.0 %	14.7 %	0.7 pp
EVA®	63	81	29.1 %

pp = percentage points

[1)] calculated on the basis of units of 1,000 euros
[2)] restated and comparable

European market share expanded
Organic sales growth of 1.3 percent
Operating profit (EBIT) up 10.5 percent
ROCE increased to 14.7 percent

Economic environment and market position

At less than 2 percent in fiscal 2005, growth in the world cosmetics markets of relevance to Henkel remained below our expectations. The highly competitive Western European consumer brands market was in particularly poor shape due to a decline in the hair cosmetics and body care segments. We were nevertheless able within this environment to consolidate our market positions and gain further market shares. Eastern Europe, Asia-Pacific and Latin America exhibited stronger market growth. Following a phase of stagnation, the North American market also slightly improved.

The world salon market underwent encouraging growth with again Eastern Europe, Asia-Pacific and Latin America as the regional drivers. As a globally aligned, innovative professional hair care specialist, Schwarzkopf Professional benefited from these developments with above-average improvements in business volumes.

Cosmetics/Toiletries occupies leading global positions in the markets of relevance to us.

Strategy

The Cosmetics/Toiletries business sector manufactures, markets and sells branded consumer goods in the hair cosmetics, body care, skin care and oral care segments and in the hair salon business. Our aim is to expand our consumer products business with a regional focus. Our emphasis is on extending our strong market positions in Europe, intensifying our market development activities in North America and focusing on carefully selected activities in Asia. We intend to continue driving forward our globalization strategy with respect to the salon business. We want to achieve growth primarily through organic expansion, and above all through the development and rapid commercialization of innovative products. Specific acquisitions to speed up business development and augment organic growth will be targeted.

Sales development

	2005
Change versus previous year	6.2 %
Foreign exchange	0.8 %
Adjusted for foreign exchange	5.4 %
Acquisitions/Divestments	4.1 %
Organic	1.3 %

On the consumer brands side, we are continuing to concentrate on the international expansion of our core activities in hair cosmetics and body care. The strategy in the case of the former is to focus on further growing our leading umbrella brand Schwarzkopf and on our core competences in colorants and styling. In the body care segment we intend to continue our recent market successes in Europe with an innovation offensive under the Fa brand. In North America, the focus will be on the Dial brand. We will be concentrating on Europe in our efforts to expand the skin care brand Diadermine and also in the further development of our oral care products. We intend to strengthen our hair salon business, currently number 3 in the world, through product innovations and to develop new regional markets for this segment.

Our aim is to continuously improve our profitability through a strategy of expanding and further strengthening our core businesses and key competences.

Sales and profits

Sales increased by 6.2 percent to 2,629 million euros, with organic growth coming in at 1.3 percent in the year under review. Western Europe profited from strong growth in our German branded consumer goods business, and we continued our rapid expansion in Eastern Europe with double-digit percentage growth rates. We were also able to improve in the Middle East and Latin America. Sales in North America reflected, in particular, a significant expansion of our Dial business. The salon business also exhibited growth rates far above the market average.

At 321 million euros, operating profit (EBIT) was 10.5 percent above the comparable prior-year figure. This high rise relative to sales is due primarily to cost savings in production and administration achieved through our restructuring measures. We were able to largely offset the slight increase in raw material prices by optimizing our formulations and packaging systems. Return on sales thus underwent a measurable improvement, rising 0.5 of a percentage point to 12.2 percent.

Return on capital employed (ROCE) climbed to 14.7 percent with a substantial improvement in operating profit against only a slight increase in the capital base.

Market segments

We were successful in further developing our *hair cosmetics* business. Our colorants portfolio was strengthened through the introduction of Poly Color Revital Farbcreme, a new product specifically aligned to the requirements of older hair. The retoucher from Poly Color offers a fast and problem-free solution to recoloring roots. Our new colorant Poly Color Natural & Easy offers intensive hair colors with a scintillating shine. In the styling market, we supplemented our international brand Taft through the introduction of Taft LYCRA® Flex and Taft Compact. The launch of the styling series got2b in Europe continued to progress successfully, with the line also being complemented by a hair care series. On the hair care side, we concentrated on developing our top brand Gliss Kur. New offerings such as our Asia Beauty Line, Gliss Kur Satin Brown and Gliss Kur Pearl Repair treatments also generated further growth.

In the *body care* segment, we undertook a comprehensive relaunch of our Fa brand in Europe. The introduction of the Fa Yogurt line with new shower gels and bath creams was very successful. The Fa deodorant range was also completely revamped and expanded through the inclusion of a new line in fragrances. In North America, we further expanded the Dial range of shower gels in line with evolving consumer requirements.

Our *skin care* business continued to grow in Europe, due primarily to the success of our international brand Diadermine. Increases in sales were achieved in particular as a result of the launch of the care line Wrinkle Expert and the facial care series Lift+New Skin. The new Diadermine Professional Kit offers effective anti-aging care for the home user.

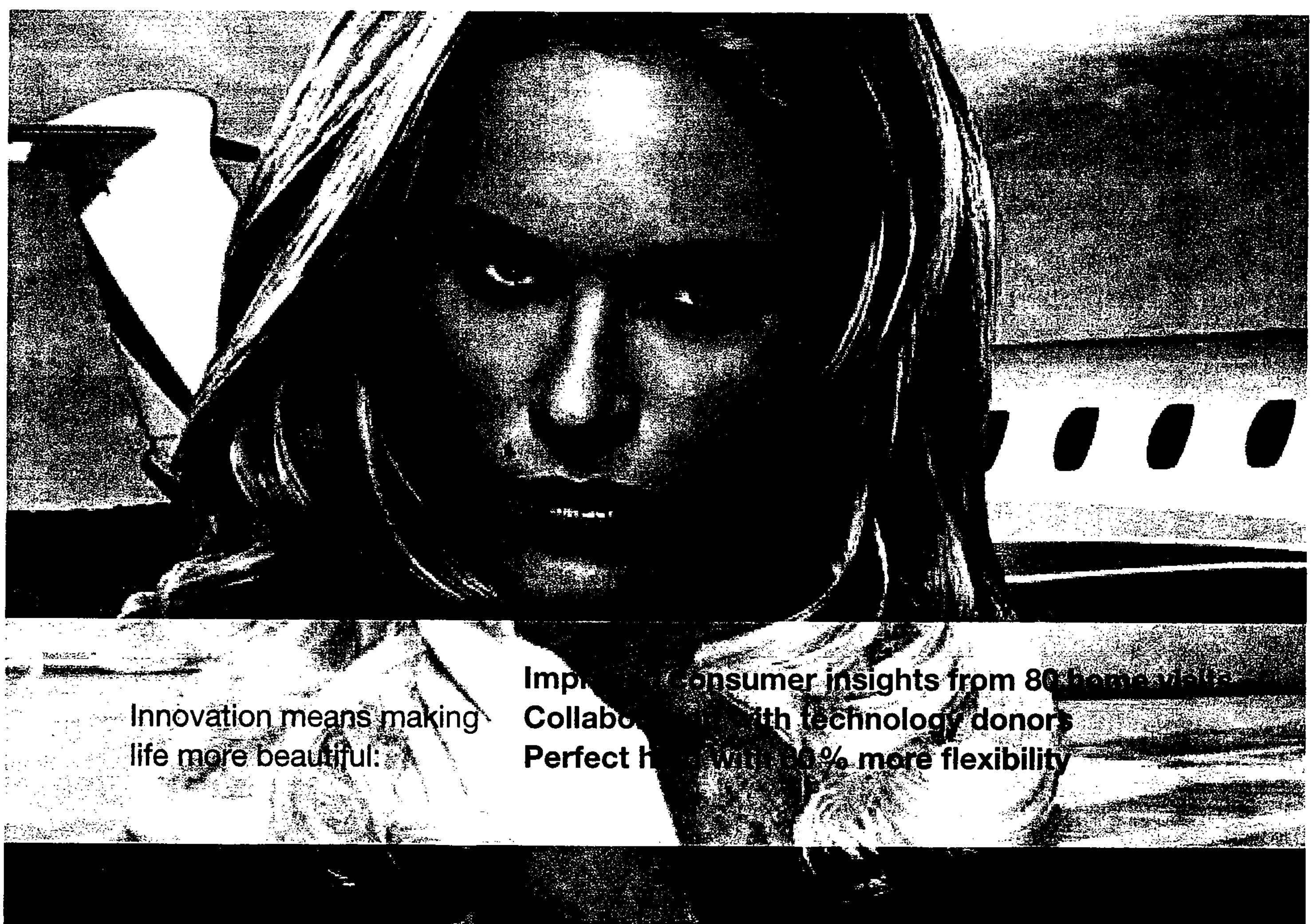
Our *oral care* segment underwent a moderate degree of growth. In particular, our international brand Theramed was able to profit from continuing demand for 2in1 and tooth whitening products in Germany.

We have further strengthened our position in this segment through the introduction of the Theramed Perfect Whitening Pen. We also expanded our portfolio of local oral care brands in Europe.

In the *hair salon business*, our colorants provided the focal point of our activities. With Igora Duality, we introduced an innovative two-phase coloration product for intensive colors and lasting shine. The styling series Silhouette was revised and our care brand SEAH was expanded through the introduction of a line for demanding hair. Our hair care series BC Bonacure, offering an intensive therapy treatment for long-lasting hair beauty, was extensively revamped. The basis of the product is provided by an innovative formulation derived from natural hair substances. The Indola range was completely revised and extended by several new lines; the most important activity, being the relaunch of the Indola colorant line Profession.

Capital expenditures

The investment focus in 2005 was on optimizing our structures and processes. Major projects were initiated as we reorganized our production activities in Asia. Our production structures in Russia underwent further development. Capital expenditures in property, plant and equipment for the year amounted to 45 million euros compared with 46 million euros in 2004.



Outlook

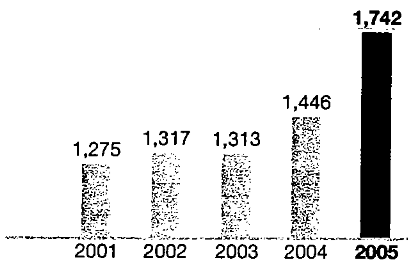
We expect the world cosmetics market to expand by around 2 percent in 2006. Eastern Europe, North America and Asia are likely to be the regional growth drivers for our business. In Western Europe we foresee stagnating markets with tougher competition.

We expect organic sales growth in 2006 to be above the market average, accompanied by a further increase in operating profit.

We see opportunities particularly in developing our markets in Asia-Pacific and North America, in the introduction of product innovations, in further reducing costs in production, in our supply chain and in our administrative activities. The risks lie in increasing competition in what are already highly competitive markets, and further raw material cost increases against only limited scope for increasing our own prices.

Consumer and Craftsmen Adhesives

Key financials[1]
Sales in million euros



in million euros	2004[2]	**2005**	**Change**
Sales	1,446	**1,742**	20.5 %
Proportion of Group sales	14 %	**15 %**	1 pp
Operating profit (EBIT)	169	**185**	9.7 %
Return on sales (EBIT)	11.7 %	**10.6 %**	–1.1 pp
Return on capital employed (ROCE)	19.3 %	**15.6 %**	–3.7 pp
EVA®	72	**55**	–24.6 %

pp = percentage points

[1] calculated on the basis of units of 1,000 euros
[2] restated and comparable

Leading world market position strengthened

Organic sales growth of 5.0 percent

Operating profit (EBIT) up 9.7 percent

ROCE at 15.6 percent

Economic environment and market position

The markets served by our Consumer and Craftsmen Adhesives business sector maintained the dynamics observed in recent years, exhibiting a growth rate of more than 2 percent in 2005. While the stagnation tendencies in our traditional European core markets persisted, the markets of, in particular, Eastern Europe and Asia were strong. Similar to the situation in the previous year, the highest rate of market growth occurred in sealants, assembly adhesives and certain building adhesive segments.

2005 was characterized by significant increases in the cost of raw materials and packaging that went beyond our expectations.

The competitive environment traditionally exhibits a preponderance of relatively small suppliers of local or regional significance. The process of consolidation among our competitors accelerated in 2005, however, with international adhesives suppliers and financial investors stepping up their corporate acquisition activities.

Consumer and Craftsmen Adhesives occupies a leading position in its market worldwide.

Strategy

The business sector focuses on two market segments: adhesives and adhesive tapes for home, school and office; and adhesives and sealants for construction, DIY and craftsmen, with our building adhesives business now having been integrated in the latter.

Adhesives and adhesive tapes for home, school and office constitute a traditional core business which we serve with our international brands Pritt (bonding and correcting) and Loctite (cyanoacrylates). Our focus for achieving further growth will, as in the recent past, be fixed mainly on expanding our organic business.

Our activities in respect of adhesives and sealants for construction, DIY and craftsmen are aligned primarily to the professional trade. Having achieved above-average growth rates, our product groups comprising sealants and advanced, high-performance solutions for chemical fixing and bonding, such as our assembly adhesives, will be expanded further.

Sales development

	2005
Change versus previous year	**20.5 %**
Foreign exchange	**1.9 %**
Adjusted for foreign exchange	**18.6 %**
Acquisitions/Divestments	**13.6 %**
Organic	**5.0 %**

The encouraging growth of our tile adhesives business has in the past been based primarily on our successes in developing the Eastern European market. We are using this strong platform in tile adhesives to successfully develop allied applications, including those for waterproofing products. We are also targeting investments toward further growth regions exhibiting strong building construction activity. Our acquisition of Polybit, a leading supplier of relevant products in the United Arab Emirates, constitutes a step in this direction.

We intend to continue pursuing our successful dual strategy of recent years, combining organic growth through product innovation and regional expansion on the one hand, with selective acquisitions on the other. Within this context, the development of new products is conducted in many cases jointly with manufacturers of our raw materials and packaging.

We intend to further expand our businesses in the growth regions outside Western Europe, with the emphasis on Eastern Europe, Asia, Latin America and the Middle East.

Sales and profits

Sales underwent a solid 20.5 percent increase to 1,742 million euros in the year under review. A large proportion of this growth is attributable to our acquisitions and the first-time consolidation of Sovereign. However, our continuing operations also performed very well, with organic growth, at 5.0 percent, again well above the market average.

Due to prevailing conditions, our businesses in the traditional European core markets performed less well. Our operation in the UK was particularly hard hit by a substantial decline in local DIY activity. The OSI assembly adhesives and sealants business acquired as part of Sovereign in North America exhibited significant growth, thus further boosting the positive results for the region as a whole. Growth in Latin America and Asia-Pacific was also very strong.

Operating profit (EBIT) increased to 185 million euros, a rise of 9.7 percent over the comparable figure for the previous year. Confronted by huge increases in raw material and packaging costs, we were only able to respond with partial, delayed price increases of our own. With the strong expansion rates achieved partly in regions still exhibiting lower margins, return on sales fell from 11.7 percent to 10.6 percent. Due to a higher capital base resulting from our acquisitions, return on capital employed (ROCE) declined to 15.6 percent.

Market segments

One of the main activities undertaken in the segment *adhesives and adhesive tapes for home, school and office* was the international launch of an adhesive tape series comprising several innovative products. Henkel's new, user-friendly Easy Start line, for example, has been very well received in various national markets. The rate of expansion of our cyanoacrylates business eased somewhat in 2005. One of our objectives for 2006 is therefore to revive growth in this line. We intend to relaunch the entire product range worldwide with significantly improved formulations and specific advertising activities.

Within the segment *adhesives and sealants for construction, DIY and craftsmen*, the successful integration of the North American OSI business has considerably strengthened our position in relation to assembly adhesives. OSI products and formulations are already being used and marketed in other regions. Conversely, OSI is also marketing products from the existing Henkel range, targeting the professional trades in the USA. Our sealants operation continued to exhibit dynamic growth. Having acquired the sealants business of Rhodia at the end of 2005, we can look forward not just to strengthening our position in the core markets of Europe, but also to further growth opportunities in other regional markets arising from access to Rhodia's technologies.

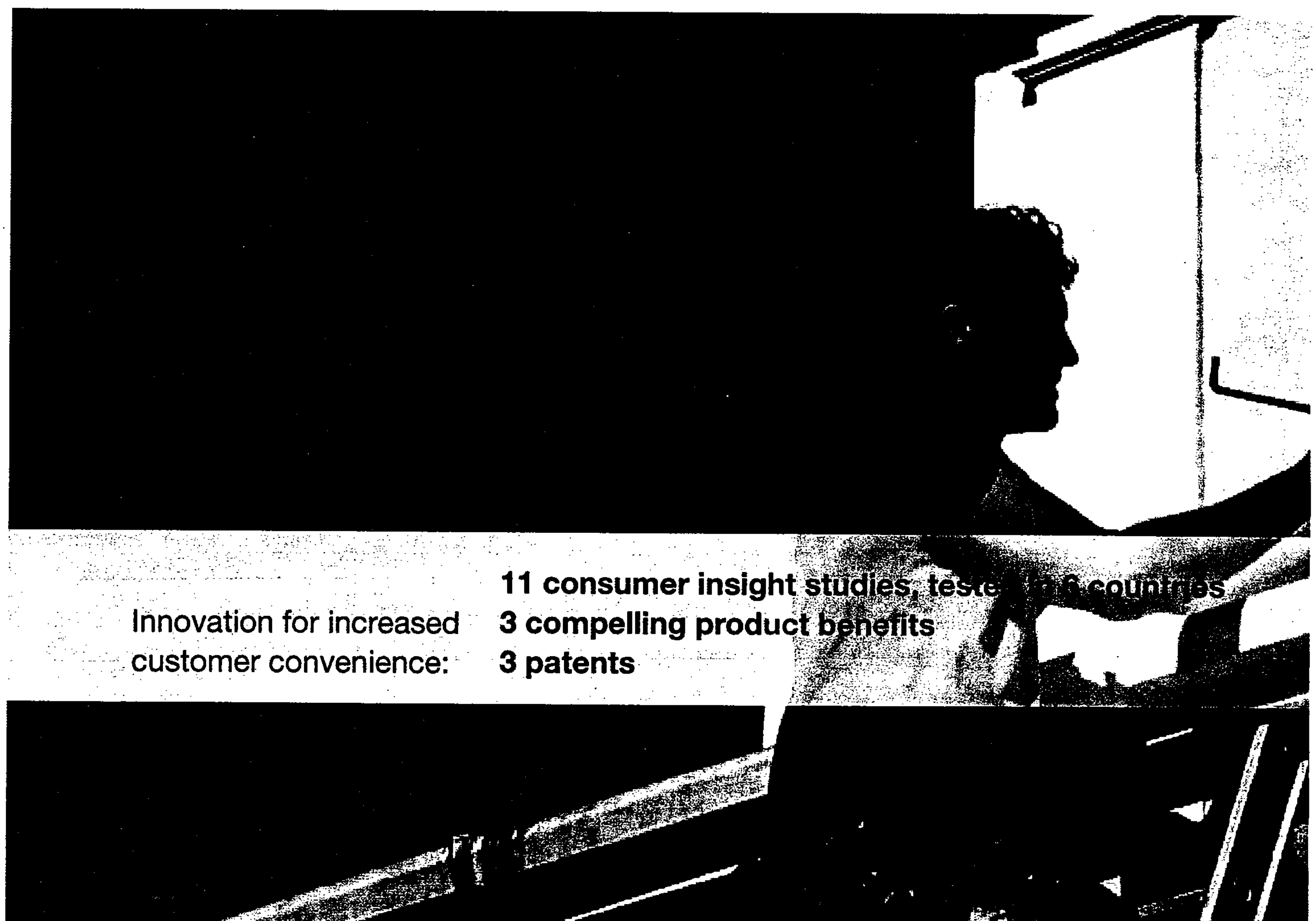
Our tile adhesives business once again performed very well, especially in Eastern Europe. An additional production facility was opened in Romania. The waterproofing product group was further expanded. With the acquisition of Polybit, Henkel has further strengthened its technology portfolio and aims to continue to promote worldwide growth in this field. In 2005, Ceresit, our international brand for tile adhesives, waterproofing products and thermal insulation products, celebrated its 100th anniversary. We again confirmed our leading position in this sector with our flooring adhesive products, which we market under the Thomsit brand.

Capital expenditures

Our capital expenditures focused on adapting production capacities to increasing demand and improving the competitiveness of our existing sites. Total investments in property, plant and equipment amounted to 50 million euros compared with 53 million euros in 2004.

Outlook

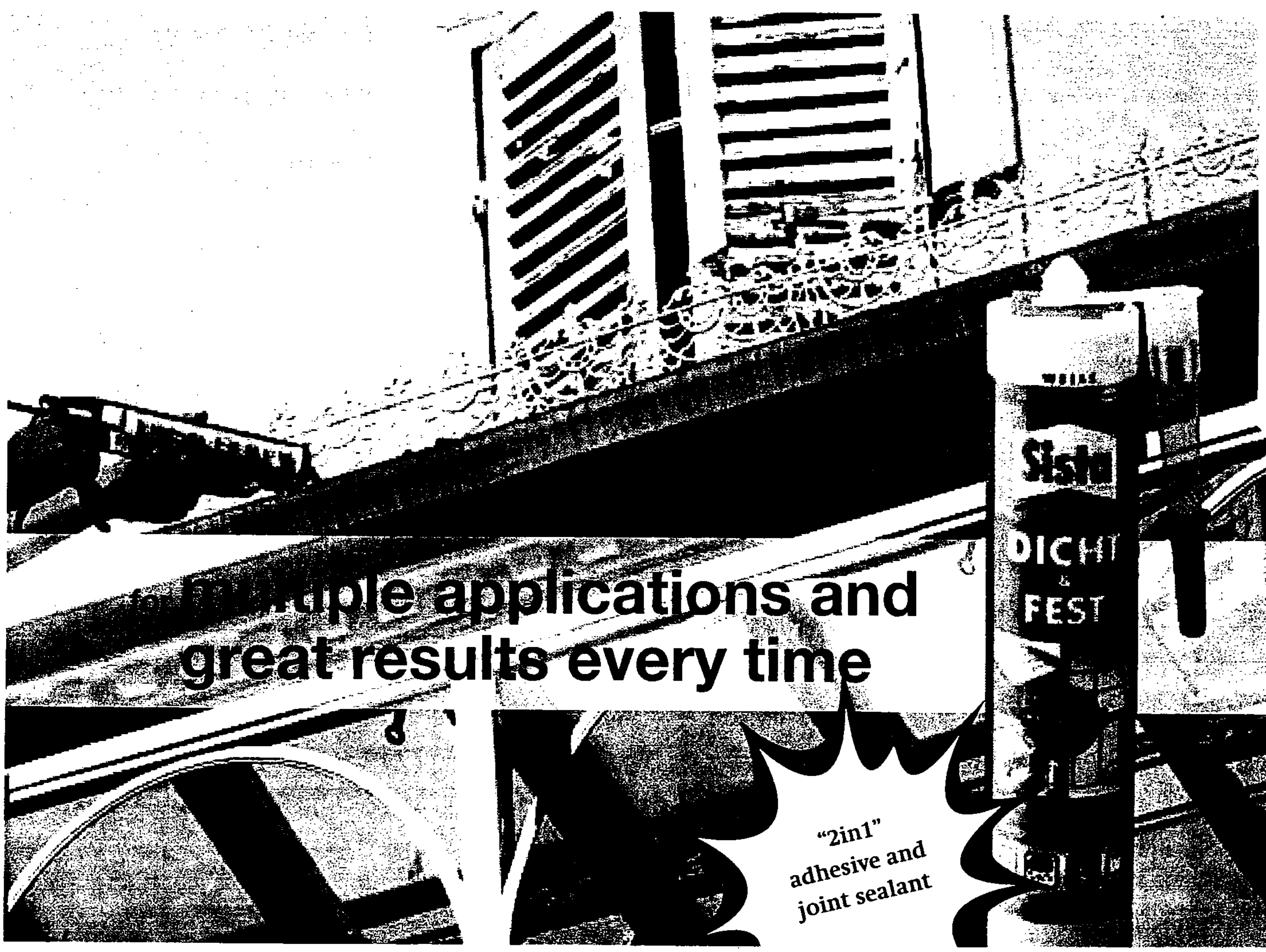
We expect a market growth rate in excess of 2 percent in 2006. The economic climate affecting our traditional European core markets is likely to remain difficult.



Costs for raw materials and packaging are expected to undergo smaller increases than in 2005. We will respond to such developments with further price increases of our own.

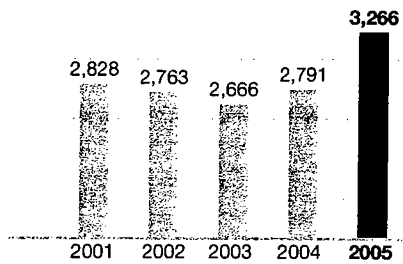
We expect organic sales growth in 2006 to be above the market average, accompanied by a further increase in operating profit.

The business dynamics of the growth regions, our new product launches planned for 2006 and potential complementary acquisitions represent opportunities for further development. In addition to rising raw material costs, the risks we face include, in particular, increasing competitive activity plus the possibility of product forgeries entering the market in some countries outside Europe.



Henkel Technologies

Key financials[1]
Sales in million euros



in million euros	2004[2]	2005	Change
Sales	2,791	3,266	17.0 %
Proportion of Group sales	26 %	27 %	1 pp
Operating profit (EBIT)	298	345	15.9 %
Return on sales (EBIT)	10.7 %	10.6 %	–0.1 pp
Return on capital employed (ROCE)	13.2 %	14.7 %	1.5 pp
EVA®	49	86	77.7 %

pp = percentage points

[1] calculated on the basis of units of 1,000 euros
[2] restated and comparable

World market leadership extended
Organic sales growth of 5.5 percent
Operating profit (EBIT) up 15.9 percent
ROCE increased to 14.7 percent

Economic environment and market position

The Henkel Technologies business sector supplies adhesives, sealants and surface treatment products for industrial applications. We offer tailored solutions to a wide range of sectors and industries and for specific applications. With this product mix, we are often able to balance out the different growth cycles that occur in the various sectors and regions.

All our markets developed encouragingly in 2005, contributing to a global growth rate of around 3 percent. Worldwide automotive production increased and the electrical engineering and electronics industries underwent substantial expansion. The steel and metals sector, and also the paper and packaging industries showed only a slight degree of growth worldwide. The increase in manufacturing output in machine construction was somewhat more pronounced. Ongoing improvements in the performance of adhesive-bonding and sealing technologies consolidated the trend toward the replacement of mechanical fixings and conventional joining processes with such systems.

Henkel Technologies is the world leader in its market. This position was further consolidated in 2005 through above-average organic growth supplemented by acquisitions.

Strategy

Henkel Technologies offers an integrated range of advanced technical solutions to its customers. We harness the business potential available in our markets for the generation of organic growth and regional expansion – particularly in Asia and Eastern Europe – augmented and supported by appropriate acquisitions. Our leading market positions and our global presence provide the platform required for efficiently supplying our globally active customers and engaging them in enduring relationships. We generate customer loyalty not least by ensuring above-average performance in all our operating functions, particularly research and development, production and process technology, supply chain management, and marketing, sales and distribution.

Sales development

	2005
Change versus previous year	17.0 %
Foreign exchange	1.3 %
Adjusted for foreign exchange	15.7 %
Acquisitions/Divestments	10.2 %
Organic	5.5 %

Sales and profits

At 3,266 million euros, sales of the Henkel Technologies business sector exceeded the prior-year figure by 17.0 percent. Organic sales rose by 5.5 percent, with double-digit percentage increases in all regions apart from Western Europe. The low level of growth in Western Europe is primarily attributable to a regional downturn in activity in the automotive and electronics sectors and the persistent weakness of the façade and construction components segment. Related to the comparable figure for the previous year, operating profit (EBIT) rose by 15.9 percent to 345 million euros, mainly due to the encouraging increase in organic sales and the successful integration of our acquisitions. We were able to pass on to our customers a significant portion of the rise in raw material costs, enabling the decrease in return on sales to be restricted to just 0.1 of a percentage point to 10.6 percent. Return on capital employed (ROCE) increased by 1.5 points to 14.7 percent.

Market segments

We were once again able to substantially expand our business in the *aerospace industry*. We registered increasing demand for composite adhesives, particularly in the form of high-strength epoxy resin products. Our adhesives and sealants for this segment passed a major challenge with the inaugural flight of the Airbus A380, the largest passenger airliner in the world. Our activities serving the *automotive industry* profited from the fact that more and more prefabricated components and foam products are being used in order to improve vehicle acoustics. Products offering enhanced coating and processing capabilities also strengthened our position in this segment. Thanks to the acquisition of Orbseal and the development of various new applications, our North American business was boosted to the extent that, despite the weakness of the Western European market, we were able to achieve double-digit percentage growth in the automotive sector worldwide.

Following the highly encouraging performance of the previous year, our operations serving the *electronics industry* underwent further expansion in the year under review, due largely to the successful introduction of our lead-free solder pastes and important first-time approvals from globally active customers interested in their use.

Our businesses serving the *steel industry* experienced further expansion following similar developments in the previous year. The introduction of, among other things, a range of innovative surface protection products enabled us to extend our scope of applications in the European and American markets, as well as in Asia. We likewise succeeded in increasing our market share in relation to *consumer durables*, thanks in particular to innovations in air and water filtering technology, and the successful market launch of Bonderite NT, our new product for metal pretreatment applications. The market for *consumer goods* developed well, especially in the packaging industry, leading to strong organic growth in this segment. Our film laminating adhesives business was boosted by increasing volume shares in respect of major customers. All our regions contributed to the growth achieved, with increased market share in North America ensuing from the Sovereign acquisition, and the acquisition of CAC strengthening our business in India. Our activities in the field of *industrial maintenance, repair and overhaul* continued to develop well. Major contributory factors in this regard include a significant expansion in our market activities in relation to engineering adhesives and our increased involvement in the renewable energies sector.

Capital expenditures

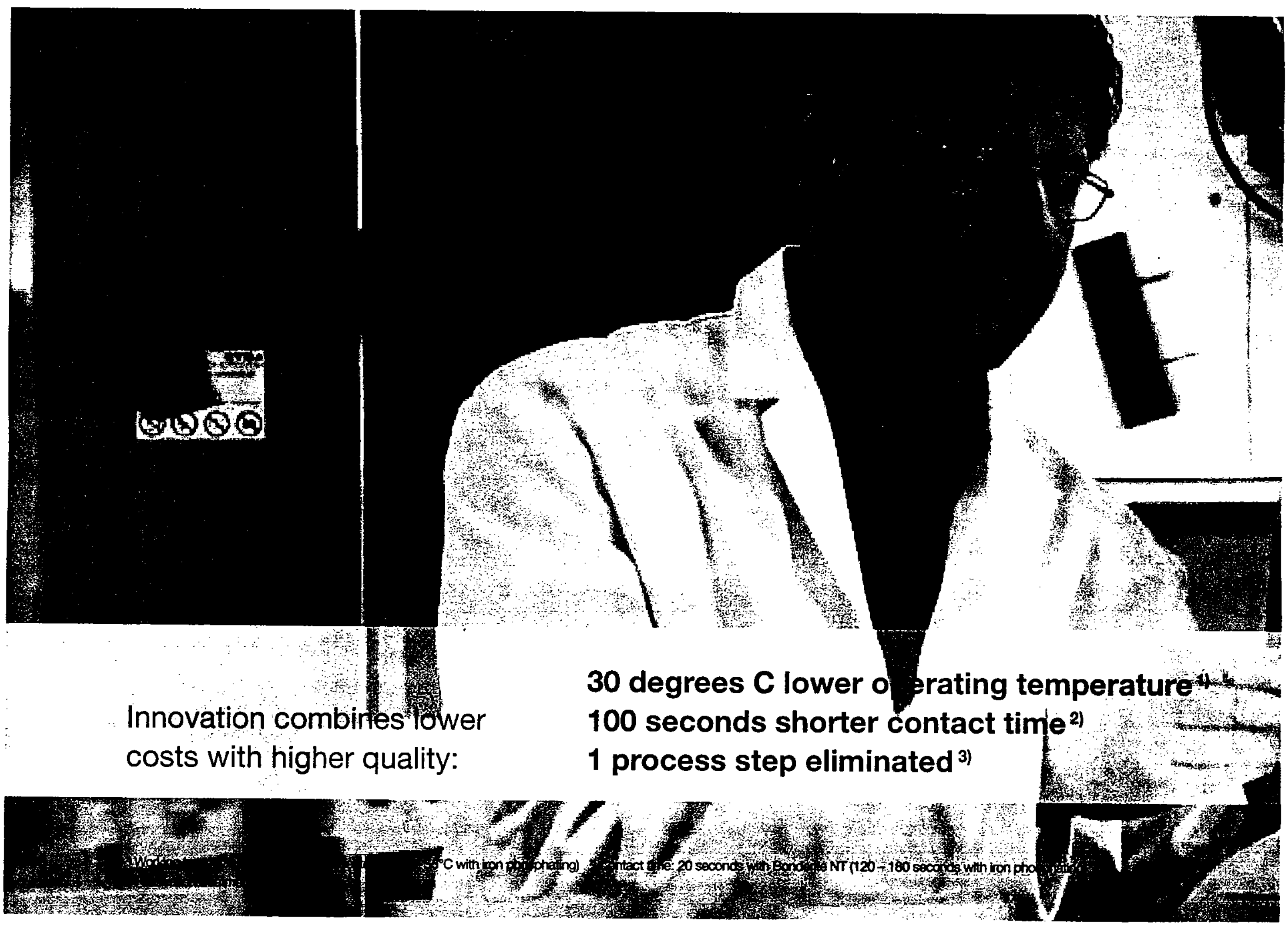
Our investments are geared primarily to improving the productivity of our manufacturing processes. We made substantial progress in reducing costs thanks to a number of individual projects. In view of the significant increase in raw material costs, this was key to securing our profitability.

We extended our local competences in the various markets with investments – e.g. in China – designed to increase our competitiveness. Total capital expenditures in property, plant and equipment amounted to 140 million euros following 86 million euros in 2004.

Outlook

We expect our markets to undergo growth of around 3 percent in 2006. We anticipate an increase in worldwide manufacturing output in the automotive industry similar to that encountered in the year under review. Ongoing global growth in the electrical engineering and electronics industries is again expected to boost our industrial business in the coming year. Growth in the steel and metals industry is likely to accelerate slightly.

We expect raw material prices to remain high, but with smaller increases than in 2005. Nevertheless, this



will necessitate further price increases for our products and services and also continual optimization and adaptation of our formulations to new raw materials as these become available.

We expect organic sales growth in 2006 to be above the market average, accompanied by a further increase in operating profit.

We see opportunities in the further substitution of existing joining technologies by adhesive bonding, and in continuing high rates of market growth in Asia and Eastern Europe. The risks affecting us relate to possible adverse developments in raw material prices.

Opportunity and risk report

Integrated opportunity and risk management system and risk control

By applying unified corporate standards, we systematically incorporate opportunities and risks in our planning and decision-making processes. In this way, we are able both to minimize potential exposure at an early stage and to specifically target and effectively exploit identified opportunities. Our risk management system is an integral component of the comprehensive planning, control and reporting regime that we have implemented in the individual companies, in our business sectors and at corporate level. The principles, processes and responsibilities relating to risk management are defined in a Corporate Standard that is binding throughout the Group. Within the framework of the 2005 financial audit, the auditors examined the structure and function of our opportunity and risk management system, confirming its adequacy and regulatory compliance.

An important basis of our global risk control capability is provided by periodically instigated risk inventories, within the framework of which opportunities are also systematically identified, documented and evaluated. Involvement of the regional managers in the reporting process ensures that risks in our international organization are comprehensively monitored and recorded. Within the framework of a risk inventory, managerial staff are required to identify risks on the basis of checklists using predefined operating and functional risk categories, and to evaluate the results in terms of occurrence likelihood and potential loss.

The development of inventoried risks and the efficiency of the risk management measures are additionally analyzed on a regular basis in a separate risk control exercise implemented at both a centralized and decentralized level. All the subprocesses incorporated within the opportunity and risk management system and the risk control process are supported by an intranet-based database that ensures transparent communication of the relevant information throughout the Henkel Group.

Operating risk structure

Risks in the field of production are minimized by a high level of manufacturing site flexibility in terms of production mix, plus clearly defined safety standards, the high qualification of our employees and regular maintenance of facilities. The negative effects of possible production failures are covered by insurance policies to the extent that this is economically feasible.

We minimize research and technology risks by operating a system of in-house fundamental research augmented by extensive information interchange with universities and research institutions. Detailed analytical methods and a strict product release procedure are applied in order to ensure defect-free product composition. The high quality of our products is also underpinned by our uniform worldwide safety and environmental standards.

In anticipation of the redrafting of the new European legislation regarding the registration, evaluation and authorization of chemicals (REACH), we have already aligned our existing processes to future requirements – as far as currently known – in order to minimize the ensuing costs.

Innovative products constitute an important factor governing the success of our Company. We accept within the bounds of business prudence that the introduction of innovations gives rise to both risks and opportunities. Through comprehensive marketing analyses and modern methods of innovation management, we ensure that the chances of a successful product launch are maximized and the corresponding risks, for example those relating to product liability, are minimized. The major instruments that we deploy in this regard include a professional ideas management system, carefully conducted laboratory tests and, in particular, a pro-active approach to satisfying customer requirements.

Capital expenditures are analyzed on the basis of a detailed risk appraisal. Careful advance analysis and feasibility studies to determine the viability of investment projects provide the basis for successful project management and an effective risk reduction capability.

Investment decisions are aligned to defined, differentiated responsibility matrixes and approval procedures that incorporate all the relevant specialist functions.

Acquisition decisions are likewise taken on the basis of a thorough risk analysis. In complex transactions, risks can arise due to laws and statutory instruments relating, for example, to tax, competition, monopolies and the environment. To combat these, we base our decisions on a comprehensive process of due diligence backed up by legal advice provided both by our own experts and by external specialists. Acquisition decisions are conducted in accordance with the procedures specified in our Corporate Standards.

In the procurement market, pro-active control of our vendor portfolio and ongoing worldwide expansion of our purchasing management capability contribute considerably to reducing risk. We strive to remain independent of individual suppliers in order to better secure the availability of the goods and services that we require. We enter into strategic partnerships with suppliers of important and price-sensitive raw materials so as to minimize the concomitant price risks. We also put considerable effort into devising alternative formulations and developing different forms of packaging in order to be able to respond to unforeseen fluctuations in the associated raw material prices.

Functional risk structure

In November 2005, Henkel KGaA restructured the method of financing pension obligations with respect to our employees and retirees in Germany. As explained on page 25, large portions of these pension obligations have been ring-fenced within a Contractual Trust Arrangement (CTA). This step serves to strengthen our financial flexibility while also enabling better management of existing refinancing risks arising from our pension obligations.

Operating on a pro-active basis governed by corporate-wide standards, the Corporate Treasury department centrally manages interest-rate, currency and liquidity risks likely to affect the Group. Derivative financial instruments are utilized exclusively for hedging purposes. Henkel uses currency derivatives in particular to hedge transaction risks. These arise from exchange rate fluctuations causing changes in the value of short-term foreign currency cash flows in relation to individual company financial statements. Currency translation risks from net investments in foreign entities are hedged on a case to case basis. Such risks derive from the possibility of an accounting loss on the translation of the equity of a subsidiary arising from movements in foreign exchange rates. The effects of the translation risk become apparent when the individual financial statements of foreign subsidiaries are translated into Group currency.

Prudent management of interest rate exposure constitutes an important objective of our financial policy. To this end, the maturity structure of our interest-bearing financial positions is managed on two levels: first, by selecting equivalent fixed-interest periods for the original financial assets and financial liabilities affecting liquidity; and second, by using interest rate derivatives, predominantly interest rate swaps. The interest rate both on the bond for 1 billion euros issued by Henkel KGaA in June 2003 and the hybrid bond for 1.3 billion euros issued by Henkel KGaA in November 2005 were converted from fixed to floating using interest rate swaps – in the case of the 2003 bond, conversion was 100 percent, and in the case of the 2005 bond, conversion was 50 percent. As the bonds and interest rate swaps are in a formally documented hedge accounting relationship, the measurement of the bonds and the measurement of the interest rate swaps match exactly in practical terms.

Clearly formulated regulations governing our response to financial risk form an essential component of the financial strategy in place at Henkel. Our objective is to reconcile as far as possible the competing requirements of profitability, liquidity, security and financial independence. The underlying Treasury Standards and the systems applied in risk management and control are explained in the Notes to the Financial Statements.

Standardized procedures, a pro-active approach to receivables management and a detailed system for monitoring customer relationships minimize the occurrence of bad debts.

We employ advanced technologies in order to avoid risks in the field of electronic data processing. Unauthorized access to data and systems, and major data losses, are extensively precluded by continuous monitoring of the efficiency, availability and reliability of our IT facilities, and by a detailed emergency response plan integrated within our security concept.

There are currently no risks arising from litigations either pending or threatened that could have a material influence on our financial position. We address litigation risk by maintaining constant contacts between the corporate legal department and local attorneys, and also through our reporting system, which serves to monitor and control current legal proceedings and to assess potential risks. We have concluded worldwide insurance policies in order to cover any remaining liability risks and potential losses that could affect the Company.

The future economic development of Henkel is essentially secured by the commitment and capabilities of our employees. We combat the increasing competition for well-qualified technical and managerial staff by maintaining close contacts with selected universities and implementing special recruitment programs. Attractive qualification and further-training opportunities combined with performance-related compensation plans form the basis of our personnel development system.

Overall risk

The risk management regime described ensures that all the relevant price-fluctuation, production-failure and liquidity risks, and risks arising from cash-flow fluctuations are effectively controlled. As in the previous year, there are no identifiable risks relating to future developments that could endanger the existence either of the holding company or of the Group as a going concern. Our risk analysis indicates that the net assets, financial position and results of operations of the holding company and of the Group as a whole are not currently endangered either by individual risks or by the aggregated exposure arising from all risks combined.

Major opportunities

As indicated in the description of our opportunity and risk management system, identification of major opportunities constitutes an integral component of our planning and decision-making processes, and is also incorporated as part of the risk inventory procedure. As opportunities and risks essentially constitute the two faces of the same entrepreneurial coin, potential opportunities generally arise from a complementary approach to all categories of operating and functional risks described. The risk of possible losses in production that comes with increasing centralization of our manufacturing effort is thus accompanied by significant potential cost savings. In particular, the opportunities of generating future profitable growth are carefully taken into account in decisions concerning potential capital expenditures and acquisitions. The primary operating opportunities of our businesses arising, for example, through product innovations in their sales markets, are described in detail in the individual business sector reports included in the Group management report. Further opportunities for increasing the efficiency of the Henkel Group can be found in the consistent utilization of potential synergies, for example in the area of supply chain management, standardization and the pooling of resources within regional shared service centers.

Underlying conditions

World economy

Worldwide growth is likely to remain at the level of the previous year. There are still global economic risks arising from the possibility of further increases in oil and raw material prices. We expect the raw material and packaging prices relevant to our businesses to undergo a slight rise. We intend to respond to such developments with price increases of our own.

We anticipate appreciable growth in the overall economy of the USA. We again expect high growth rates in Asia, Latin America and Eastern Europe. Growth rates in Western Europe should improve slightly. While we expect the US dollar to remain at roughly the same average value as in the previous year, interest rates are likely to rise slightly.

Sector developments

We expect private consumption in Western Europe to undergo a slight upturn, and consumers in the USA to continue to spend reasonably freely.

World automotive output is expected to increase with, in our estimation, lower-than-average growth in the USA. The European automotive industry is likely to return to growth and we foresee above-average increases in production levels in Asia and Latin America.

The global growth undergone by the electrical engineering and electronics industries will continue to benefit our industrial businesses in the coming year.

We expect the steel and metals industry to further expand at a somewhat accelerated rate.

The outlook for the construction industry in Europe indicates a degree of improvement with a slight increase in building investment. Our expectation for German construction is that it will register just a small minus. In the USA, the signs point to a moderate acceleration in growth.

Sales and profits forecast for 2006

The underlying conditions are expected to undergo a slight improvement in 2006. Our intention is once again to grow faster than our markets.

The Henkel Group expects to achieve organic sales growth (i.e. after adjusting for foreign exchange and acquisitions/divestments) of 3 to 4 percent in 2006.

We expect operating profit (EBIT) to grow by around 10 percent after adjusting for foreign exchange.

We likewise expect an increase of around 10 percent in earnings per preferred share (EPS).

Post-closure report

On January 12, 2006, the rating agency Moody's raised its outlook for the Henkel Group from negative to stable, due primarily to a significant improvement in our key financial ratios and good cash flow developments.

Further major events occurring between the balance sheet date (December 31, 2005) and the preparation date (January 30, 2006) are described in Note 52 to the Consolidated Financial Statements.

Consolidated Statement of Income

in million euros

	Note	restated 2004[1]	restated and comparable 2004[2]	2005
Sales	1	**10,592**	**10,592**	**11,974**
Cost of sales	2	–5,617	–5,617	**–6,533**
Gross profit		**4,975**	**4,975**	**5,441**
Marketing, selling and distribution costs	3	–3,157	–3,157	**–3,409**
Research and development costs	4	–272	–272	**–324**
Administrative expenses	5	–571	–571	**–627**
Other operating income	6	146	146	**183**
Other operating charges	7	–103	–103	**–78**
Scheduled amortization of goodwill		–200	–	**–**
Current restructuring costs	8	–22	–22	**–24**
Operating profit (EBIT) before exceptional items		**796**	**996**	**1,162**
Advanced Restructuring costs		–408	–	**–**
Gain arising on the exchange of the investment in Clorox		1,770	–	**–**
Impairment losses on goodwill		–242	–	**–**
Operating profit (EBIT) after exceptional items		**1,916**	**996**	**1,162**
Net income from associated companies		162	165	**72**
Net result from other investments		2	2	**18**
Interest income		58	58	**70**
Interest expense		–214	–214	**–280**
Financial items	9	**8**	**11**	**–120**
Earnings before tax		**1,924**	**1,007**	**1,042**
Taxes on income	10	**–186**	**–259**	**–272**
Net earnings		**1,738**	**748**	**770**
Minority interests	11	–1	–1	**–13**
Earnings after minority interests		**1,737**	**747**	**757**

Earnings per share (basic) in euros

	Note	restated 2004[1]	restated and comparable 2004[2]	2005
Ordinary shares	45	12.08	5.18	**5.25**
Non-voting preferred shares	45	12.14	5.24	**5.31**

Earnings per share (diluted) in euros

	Note	restated 2004[1]	restated and comparable 2004[2]	2005
Ordinary shares	45	12.08	5.18	**5.25**
Non-voting preferred shares	45	12.11	5.23	**5.28**

[1] application of IAS 19.93 A (discontinuation of amortization of actuarial gains/losses, net of tax, 5 million euros) and IFRS 2 (recognition in the statement of income of share-based payments, net of tax, –3 million euros), see page 69.

[2] adjusted for exceptional items (exchange of investment in Clorox, goodwill impairment losses and Advanced Restructuring costs) and adjusted for scheduled amortization of goodwill in EBIT (200 million euros) and in financial items (9 million euros) and the effects of SFAS 123 (R) on our associated company Ecolab Inc. (–6 million euros), see page 70.

Consolidated Balance Sheet

Assets in million euros

	Note	restated 2004[1]	2005
Intangible assets	12	4,554	**5,660**
Property, plant and equipment	13	1,808	**2,045**
Shares in associated companies		463	**530**
Other investments and long-term loans		575	**151**
Financial assets	14	1,038	**681**
Other non-current assets	15	113	**223**
Deferred tax	16	476	**456**
Non-current assets		**7,989**	**9,065**
Inventories	17	1,196	**1,232**
Trade accounts receivable	18	1,743	**1,794**
Other current receivables and miscellaneous assets	19	557	**378**
Current tax assets		107	**121**
Liquid funds/Marketable securities	20	1,695	**1,212**
Assets held for sale	21	–	**142**
Current assets		**5,298**	**4,879**
Total assets		**13,287**	**13,944**

Shareholders' Equity and Liabilities in million euros

	Note	restated 2004[1]	2005
Subscribed capital	22	374	**374**
Capital reserve	23	652	**652**
Revenue reserves	24	4,286	**4,764**
Gains and losses recognized in equity	25	–982	**–419**
Equity excluding minority interests		**4,330**	**5,371**
Minority interests	26	16	**28**
Equity including minority interests		**4,346**	**5,399**
Pensions and similar obligations	27	2,218	**1,061**
Other long-term provisions	28	599	**427**
Long-term borrowings	29	1,385	**2,400**
Other non-current liabilities	30	117	**59**
Deferred tax	31	455	**473**
Non-current liabilities		**4,774**	**4,420**
Short-term provisions	32	918	**932**
Short-term borrowings	33	1,789	**1,405**
Trade accounts payable	34	1,099	**1,333**
Other current liabilities	35	361	**455**
Current liabilities		**4,167**	**4,125**
Total equity and liabilities		**13,287**	**13,944**

[1] application of IAS 19.93 A (recognition of actuarial gains/losses and deferred tax thereon in equity) and IFRS 2 (recognition of share-based payments in the statement of income), see page 69.

Consolidated Cash Flow Statement

See Note 45
in million euros

	restated 2004[1]	restated and comparable 2004[2]	2005
Operating profit (EBIT) after exceptional items	**1,916**	**996**	**1,162**
Income taxes paid	–276	–276	–265
Amortization/depreciation/write-ups of non-current assets (excluding financial assets)	851	320	334
Net gains/losses on disposal of non-current assets (excluding financial assets)	–1,785	–15	–6
Change in inventories	1	1	29
Change in receivables and miscellaneous assets	–50	–28	123
Change in liabilities and provisions	266	–53	–123
Cash flow from operating activities	**923**	**945**	**1,254**
Purchase of intangible assets	–26	–26	–43
Purchase of property, plant and equipment	–344	–344	–393
Purchase of financial assets/acquisitions	–3,420	–3,420	–85
Proceeds on disposal of subsidiaries and business units	2,282	2,282	–
Proceeds on disposal of other non-current assets	481	481	43
Cash flow from investing activities/acquisitions	**–1,027**	**–1,027**	**–478**
Henkel KGaA dividends	–167	–167	–181
Subsidiary company dividends (to other shareholders)	–12	–12	–9
Interest received	49	49	71
Dividends received	74	74	20
Interest paid	–215	–215	–268
Dividends and interest paid and received	*–271*	*–271*	*–367*
Change in borrowings	1,039	1,017	214
Allocation to Contractual Trust Arrangement (CTA)	–	–	–1,297
Other financing transactions	–7	–7	–18
Cash flow from financing activities	**761**	**739**	**–1,468**
Change in cash and cash equivalents	**657**	**657**	**–692**
Effect of exchange rate changes on cash and cash equivalents	–150	–150	209
Change in liquid funds and marketable securities	**507**	**507**	**–483**
Liquid funds and marketable securities at January 1	1,188	1,188	1,695
Liquid funds and marketable securities at December 31	1,695	1,695	1,212

Computation of free cash flow in million euros

	restated 2004[1]	restated and comparable 2004[2]	2005
Cash flow from operating activities	923	945	1,254
Purchase of intangible assets	–26	–26	–43
Purchase of property, plant and equipment	–344	–344	–393
Proceeds on disposal of subsidiaries and business units	2,282	–[3]	–
Proceeds on disposal of other non-current assets	481	68[3]	43
Dividends received/Net interest	–92	–92	–177
Free cash flow	**3,224**	**551[3]**	**684**

[1] application of IAS 19.93 A and IFRS 2

[2] cash flow from operating activities before exceptional items

[3] adjusted for proceeds on the exchange of the strategic investment in Clorox and repayment of the vendor note (loan to Cognis)

Statement of Recognized Income and Expense

in million euros

	restated 2004	**2005**
Net earnings	**1,738**	**770**
Foreign exchange effects	–324	**602**
Derivative financial instruments	10	**–36**
Actuarial gains/losses	–72	**–140**
Other gains and losses recognized in equity	–25	**39**
Gains and losses recognized directly in equity	**–411**	**465**
Total earnings for the period	**1,327**	**1,235**
– Minority shareholders	–47	**21**
– Equity holders of Henkel KGaA	1,374	**1,214**
Effect of changes in accounting policies	–70	**–**

Notes to the Consolidated Financial Statements: Statement of Changes in Equity

See notes 22 to 26
in million euros

					Gains and losses recognized in equity			
	Ordinary shares	Preferred shares	Capital reserve	Revenue reserves	Translation differences	Derivative financial instruments	Minority interests	**Total**
At January 1, 2004 as reported	**222**	**152**	**652**	**2,955**	**–673**	**3**	**75**	**3,386**
Restatement	**–**	**–**	**–**	**–188**	**–**	**–**	**–**	**–188**
At January 1, 2004 restated	**222**	**152**	**652**	**2,767**	**–673**	**3**	**75**	**3,198**
Distributions	–	–	–	–167	–	–	–12	**–179**
Sale of treasury shares	–	–	–	–	–	–	–	**–**
Net earnings	–	–	–	1,737	–	–	1	**1,738**
Foreign exchange effects	–	–	–	–	–322	–	–2	**–324**
Derivative financial instruments	–	–	–	–	–	10	–	**10**
Actuarial gains (+) and losses (–)	–	–	–	–72	–	–	–	**–72**
Other gains and losses recognized in equity	–	–	–	21	–	–	–46	**–25**
At December 31, 2004/January 1, 2005	**222**	**152**	**652**	**4,286**	**–995**	**13**	**16**	**4,346**
Distributions	–	–	–	–181	–	–	–9	**–190**
Sale of treasury shares	–	–	–	8	–	–	–	**8**
Net earnings	–	–	–	757	–	–	13	**770**
Foreign exchange effects	–	–	–	–	599	–	3	**602**
Derivative financial instruments	–	–	–	–	–	–36	–	**–36**
Actuarial gains (+) and losses (–)	–	–	–	–140	–	–	–	**–140**
Other gains and losses recognized in equity	–	–	–	34	–	–	5	**39**
At December 31, 2005	**222**	**152**	**652**	**4,764**	**–396**	**–23**	**28**	**5,399**

Group Segment Information[1] by Business Sector

See Note 43
in million euros

Business sectors	Laundry & Home Care	Cosmetics/ Toiletries	Consumer & Craftsmen Adhesives	Henkel Tech-nologies	Corporate	Group
Sales 2005	**4,088**	**2,629**	**1,742**	**3,266**	**249**	**11,974**
Change from previous year	13.0 %	6.2 %	20.5 %	17.0 %	–	**13.0 %**
Proportion of Group sales	34 %	22 %	15 %	27 %	2 %	**100 %**
Sales 2004	3,617	2,477	1,446	2,791	261	**10,592**
EBITDA 2005	**550**	**371**	**224**	**452**	**–101**	**1,496**
EBITDA 2004[2]	476	347	208	382	–97	**1,316**
Change from previous year	15.5 %	6.6 %	8.2 %	18.3 %	–	**13.8 %**
Return on sales (EBITDA) 2005	**13.5 %**	**14.1 %**	**12.9 %**	**13.8 %**	–	**12.5 %**
Return on sales (EBITDA) 2004[2]	13.2 %	14.0 %	14.3 %	13.7 %	–	**12.4 %**
Amortization and depreciation of trademark rights, other rights and property, plant & equipment 2005	**117**	**50**	**39**	**107**	**21**	**334**
Amortization and depreciation of trademark rights, other rights and property, plant & equipment 2004	126	57	39	84	14	**320**
EBIT 2005	**433**	**321**	**185**	**345**	**–122**	**1,162**
EBIT 2004[2]	350	290	169	298	–111[5]	**996**
Change from previous year	23.7 %	10.5 %	9.7 %	15.9 %	–	**16.7 %**
Return on sales (EBIT) 2005	**10.6 %**	**12.2 %**	**10.6 %**	**10.6 %**	–	**9.7 %**
Return on sales (EBIT) 2004[2]	9.7 %	11.7 %	11.7 %	10.7 %	–	**9.4 %**
Capital employed 2005[3]	**3,184**	**2,184**	**1,186**	**2,350**	**–167**	**8,737**
Capital employed 2004[2] [3]	2,363	2,071	876	2,265	63	**7,638**
Change from previous year	34.8 %	5.4 %	35.4 %	3.8 %	–	**14.4 %**
Return on capital employed (ROCE) 2005	**13.6 %**	**14.7 %**	**15.6 %**	**14.7 %**	–	**13.3 %**
Return on capital employed (ROCE) 2004[2]	14.8 %	14.0 %	19.3 %	13.2 %	–	**13.0 %**
Capital expenditures (excl. financial assets) 2005	**158**	**53**	**356**	**493**	**37**	**1,097**
Capital expenditures (excl. financial assets) 2004	2,609	1,365	114	179	31	**4,298**
Operating assets 2005[4]	**4,403**	**2,715**	**1,471**	**2,808**	**307**	**11,704**
Operating liabilities 2005	**1,036**	**710**	**351**	**745**	**474**	**3,316**
Net operating assets employed 2005[4]	**3,367**	**2,005**	**1,120**	**2,063**	**–167**	**8,388**
Operating assets 2004[4]	3,204	2,415	1,064	2,489	355	**9,527**
Operating liabilities 2004[2]	897	656	294	627	292	**2,766**
Net operating assets employed 2004[2] [4]	2,307	1,759	770	1,862	63	**6,761**
Research and development costs (R&D) 2005	**88**	**48**	**27**	**123**	**38**	**324**
R&D as % of sales 2005	**2.2 %**	**1.8 %**	**1.5 %**	**3.8 %**	–	**2.7 %**
Research and development costs (R&D) 2004	74	42	21	101	34	**272**
R&D as % of sales 2004	2.1 %	1.7 %	1.5 %	3.6 %	–	**2.6 %**

[1] calculated on the basis of units of 1,000 euros [2] restated and comparable
[3] including goodwill at acquisition cost [4] including goodwill at net book values
[5] reported in 2004: 1,010 million euros, including the gain on the exchange of the strategic investment in Clorox of 1,770 million euros, Advanced Restructuring costs of 408 million euros (Laundry & Home Care 128 million euros, Cosmetics/Toiletries 83 million euros, Consumer and Craftsmen Adhesives 46 million euros, Henkel Technologies 114 million euros and Corporate 37 million euros), goodwill impairment losses of 242 million euros (Laundry & Home Care 58 million euros, Cosmetics/Toiletries 31 million euros, Consumer and Craftsmen Adhesives 5 million euros, Henkel Technologies 148 million euros); restated in accordance with IFRS 2 (recognition of share-based payments in the statement of income): Corporate 1 million euros.

Group Segment Information[1] by Region

See Note 43
in million euros

Regions	Europe/ Africa/ Middle East	North America (USA, Canada)	Latin America	Asia-Pacific	Corporate	**Group**
Sales by location of company 2005	**7,490**	**2,733**	**571**	**931**	**249**	**11,974**
Change from previous year	5.7 %	36.6 %	21.1 %	20.2 %	–	**13.0 %**
Proportion of Group sales	62 %	23 %	5 %	8 %	2 %	**100 %**
Sales by location of company 2004	7,085	2,000	471	775	261	**10,592**
Sales by location of customer 2005	**7,430**	**2,721**	**588**	**986**	**249**	**11,974**
Change from previous year	5.9 %	38.7 %	20.2 %	13.6 %	–	**13.0 %**
Proportion of Group sales	62 %	23 %	5 %	8 %	2 %	**100 %**
Sales by location of customer 2004	7,013	1,961	489	868	261	**10,592**
EBITDA 2005	**1,048**	**435**	**46**	**68**	**–101**	**1,496**
EBITDA 2004[2]	1,017	310	32	54	–97	**1,316**
Change from previous year	3.0 %	40.4 %	44.0 %	26.5 %	–	**13.8 %**
Return on sales (EBITDA) 2005	**14.0 %**	**15.9 %**	**8.0 %**	**7.3 %**	**–**	**12.5 %**
Return on sales (EBITDA) 2004[2]	14.4 %	15.5 %	6.7 %	7.0 %	–	**12.4 %**
Amortization and depreciation of trademark rights, other rights and property, plant and equipment 2005	**191**	**88**	**17**	**17**	**21**	**334**
Amortization and depreciation of trademark rights, other rights and property, plant and equipment 2004	210	68	14	14	14	**320**
EBIT 2005	**857**	**347**	**29**	**51**	**–122**	**1,162**
EBIT 2004[2]	807	242	18	40	–111[5]	**996**
Change from previous year	6.2 %	43.5 %	61.6 %	26.4 %	–	**16.7 %**
Return on sales (EBIT) 2005	**11.4 %**	**12.7 %**	**5.1 %**	**5.5 %**	**–**	**9.7 %**
Return on sales (EBIT) 2004[2]	11.4 %	12.1 %	3.8 %	5.2 %	–	**9.4 %**
Capital employed 2005[3]	**3,363**	**4,487**	**431**	**623**	**–167**	**8,737**
Capital employed 2004[2] [3]	3,470	3,241	384	480	63	**7,638**
Change from previous year	–3.1 %	38.5 %	12.2 %	29.8 %	–	**14.4 %**
Return on capital employed (ROCE) 2005	**25.5 %**	**7.7 %**	**6.8 %**	**8.2 %**	**–**	**13.3 %**
Return on capital employed (ROCE) 2004[2]	23.2 %	7.5 %	4.7 %	8.4 %	–	**13.0 %**
Capital expenditures (excl. financial assets) 2005	**353**	**626**	**15**	**66**	**37**	**1,097**
Capital expenditures (excl. financial assets) 2004	369	3.682	47	169	31	**4,298**
Operating assets 2005[4]	**4,827**	**5,226**	**501**	**843**	**307**	**11,704**
Operating liabilities 2005	**1,978**	**517**	**88**	**259**	**474**	**3,316**
Net operating assets employed 2005[4]	**2,849**	**4,709**	**413**	**584**	**–167**	**8,388**
Operating assets 2004[4]	4,676	3,386	445	665	355	**9,527**
Operating liabilities 2004[2]	1,799	358	78	239	292	**2,766**
Net operating assets employed 2004[2] [4]	2,877	3,028	367	426	63	**6,761**

[1] calculated on the basis of units of 1,000 euros [2] restated and comparable
[3] including goodwill at acquisition cost [4] including goodwill at net book values
[5] reported in 2004: 1.010 million euros, including gain on the exchange of the strategic investment in Clorox of 1,770 million euros, Advanced Restructuring costs of 408 million euros (Europe/Africa/Middle East 282 million euros, North America 60 million euros, Latin America 7 million euros, Asia-Pacific 22 million euros, Corporate 37 million euros), goodwill impairment losses of 242 million euros (Europe/Africa/Middle East 79 million euros, North America 115 million euros, Latin America 2 million euros and Asia-Pacific 46 million euros); restated in accordance with IFRS 2 (recognition of share-based payments in the statement of income): Corporate 1 million euros.

Changes in Intangible Assets, Property, Plant and Equipment and Financial Assets

Cost in million euros

	Intangible assets	Property, plant and equipment	Financial assets	**Total**
At January 1, 2004	**2,887**	**4,639**	**1,425**	**8,951**
Changes in the Group/acquisitions	3,726	187	–31	**3,882**
Additions	26	344	461	**831**
Disposals	–43	–210	–806	**–1,059**
Reclassifications	2	– 2	–	**–**
Translation differences	–387	–103	12	**–478**
At December 31, 2004	**6,211**	**4,855**	**1,061**	**12,127**
IFRS 3/IAS 38 according to reclassification	–1,304	–	–	**–1,304**
At January 1, 2005	**4,907**	**4,855**	**1,061**	**10,823**
Changes in the Group/acquisitions	564	100	–316	**348**
Additions	43	393	78	**514**
Disposals[1]	–82	–244	–139	**–465**
Reclassifications	26	–26	–	**–**
Translation differences	631	207	15	**853**
At December 31, 2005	**6,089**	**5,285**	**699**	**12,073**
[1] of which assets held for sale	–72	–60	–	**–132**

Accumulated amortization/depreciation in million euros

	Intangible assets	Property, plant and equipment	Financial assets	**Total**
At January 1, 2004	**1,246**	**2,956**	**26**	**4,228**
Changes in the Group/acquisitions	–	–13	–	**–13**
Write-ups	–	–3	–	**–3**
Scheduled amortization/depreciation	268	252	–	**520**
Impairment losses	242	92	2	**336**
Disposals	–43	–176	–5	**–224**
Reclassifications	1	–1	–	**–**
Translation differences	–57	–60	–	**–117**
At December 31, 2004	**1,657**	**3,047**	**23**	**4,727**
IFRS 3/IAS 38 according to reclassification	–1,304	–	–	**–1,304**
At January 1, 2005	**353**	**3,047**	**23**	**3,423**
Changes in the Group/acquisitions	–	3	–	**3**
Write-ups	–	–7	–	**–7**
Scheduled amortization/depreciation	49	279	–	**328**
Impairment losses	9	4	4	**17**
Disposals[1]	–10	–171	–10	**–191**
Reclassifications	–2	2	–	**–**
Translation differences	30	83	1	**114**
At December 31, 2005	**429**	**3,240**	**18**	**3,687**
[1] of which assets held for sale	–	–19	–	**–19**

Net book value in million euros

	Intangible assets	Property, plant and equipment	Financial assets	**Total**
At December 31, 2005	**5,660**	**2,045**	**681**	**8,386**
At December 31, 2004	**4,554**	**1,808**	**1,038**	**7,400**

General information

The consolidated financial statements of Henkel KGaA have been prepared in accordance with International Financial Reporting Standards (IFRS).

The individual financial statements are drawn up on the same accounting date as those of Henkel KGaA.

The financial statements of companies included in the consolidation have been audited by members of the KPMG organization or by other independent firms of auditors instructed accordingly. On January 30, 2006, the personally liable managing partners of Henkel KGaA approved the release of the consolidated financial statements to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and declaring whether it approves them.

The consolidated financial statements have been prepared under the historical cost convention, with the exception that certain financial instruments are stated at their fair values. The Group currency is the euro. Unless otherwise indicated, all amounts are shown in million euros. In order to improve the clarity and informative value of the consolidated financial statements, certain items are combined in the balance sheet and in the statement of income and shown separately in the Notes. The following items are shown separately in the statement of income:

- Research and development costs
- Current restructuring costs.

This gives a better overall picture of the net assets, financial position and results of operations of the Group.

Composition of the Group

In addition to Henkel KGaA, the consolidated financial statements at December 31, 2005 include 21 German and 216 foreign companies in which Henkel KGaA has the power to govern the financial and operating policies, based on the concept of control. This is generally the case where Henkel KGaA holds, directly or indirectly, a majority of the voting rights. A total of 32 dormant companies or companies with insignificant operations have been excluded from the consolidated financial statements, as they are immaterial, individually and in total, to the net assets, financial position and results of operations of the Group. Companies in which not more than half the shares are held are fully consolidated if Henkel holds a majority of the voting rights.

The composition of the Group has changed in the course of 2005 compared with the previous year. 26 companies have been included in the consolidated Group figures for the first time, 21 companies were merged and 9 companies are no longer consolidated. The investment in Ecolab Inc., St. Paul, Minnesota, USA, is accounted for using the equity method, because the Henkel Group holds more than 20 percent of the voting rights and has significant influence on the financial and operating policies of the company.

Principal acquisitions by business sector in million euros

	Holding in %	Financial commitment[1]	First consolidated
Consumer and Craftsmen Adhesives		**36**	
Chemofast, Germany	73	10	Jan. 1, 2005
Polybit Industries, Sharjah (UAE)	49	19	June 30, 2005
Sealant compounds business, Rhodia, France	100	7	Sep. 30, 2005
Henkel Technologies		**41**	
Converter Adhesives & Chemicals, India	76	14	Feb. 24, 2005
Huawei Electronics, China	71	27	Nov. 2, 2005

[1] purchase price (52 million euros) plus debts assumed less cash and cash equivalents assumed (25 million euros)

Consolidation principles

The purchase method is used for the consolidation of capital. This method stipulates that for business combinations all hidden reserves and hidden charges in the company acquired are fully reflected at fair value and all identifiable intangible assets are separately disclosed. Any difference arising between the fair value of the net assets and the purchase price is recognized as goodwill. Companies acquired are included in the consolidation for the first time by eliminating the carrying amount of the parent company's investment in the subsidiary companies against their assets, deferred charges, liabilities and deferred income. In subsequent years, the carrying amount of the parent company's investment in the subsidiary companies is eliminated against the current equity of the subsidiary companies.

The investment in Ecolab Inc., St. Paul, Minnesota, USA, is accounted for using the equity method.

All receivables and liabilities, sales, income and expenses, as well as intercompany profits on non-current assets or inventories supplied by other companies in the Group, are eliminated on consolidation. Intra-Group supplies are transacted on the basis of market or transfer prices.

Currency translation

The financial statements of companies included in the consolidation, including the hidden reserves and hidden charges of Group companies reflected under the purchase method, and also goodwill arising on consolidation, are translated into euros using the functional currency method outlined in IAS 21. The functional currency is the main currency in which the foreign company generates funds and makes payments. As the functional currency for the companies included in the consolidation is always the local currency of the company concerned, assets and liabilities are translated at the mid rates ruling on the balance sheet date, while income and expenses are translated at average rates for the year. The differences arising from using average rather than year-end rates are taken to equity and shown as "Gains and losses recognized in equity" without affecting earnings. In Turkey, the financial statements have been prepared in euros for the last time.

Foreign currency accounts receivable and payable are translated at year-end rates of exchange. For the main currencies in the Group, the following exchange rates have been used for one euro:

Currency		Average exchange rate		Year-end exchange rate	
	ISO code	2004	**2005**	2004	**2005**
British pounds	GBP	0.68	**0.68**	0.7050	**0.6853**
Swiss francs	CHF	1.54	**1.55**	1.5429	**1.5551**
Japanese yen	JPY	134.46	**136.84**	139.6500	**138.9000**
US dollars	USD	1.24	**1.24**	1.3621	**1.1797**

Accounting estimates and assumptions

The preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

Changes in accounting policies

There have been the following changes in accounting policies in fiscal 2005:

1. All the changes to existing Accounting Standards agreed by the IASB in the course of its Improvements Project which are relevant to Henkel have been applied in the 2005 financial statements. In particular, we have revised our balance sheet classifications so as to disclose current and non-current items in accordance with the requirements of IAS 1.
2. Actuarial gains and losses are recognized in full in accordance with IAS 19.93 A (Employee Benefits) and offset against revenue reserves. The corridor approach is no longer used (see Note 27).

   As a result of the transition from the corridor approach used in 2004 to the full recognition of actuarial gains and losses in the balance sheet, the comparative figures for 2004 have been restated in accordance with IAS 8. This restatement increased the pension provisions at January 1, 2004 by 295 million euros to a total of 1,937 million euros. The amortization before tax of actuarial losses of 7 million euros disclosed in fiscal 2004 and previously unrecognized actuarial losses of 108 million euros were also restated. This has led to an increase in provisions for pensions as well as in financial items, net earnings and earnings per share for 2004.
3. Effective January 1, 2005, share-based payment transactions have been reported in accordance with the provisions of IFRS 2 (Share-based Payment) (see Note 40).

   As a result of the switch to recognizing share-based payments in the income statement, the comparative figures for 2004 have been restated in accordance with IAS 8. This restatement reduced operating profit by 4 million euros. After deducting the relevant taxes, the effect of the restatement was to reduce equity by 3 million euros, increase the deferred tax assets by 1 million euros and increase other long-term provisions by 4 million euros.
4. Effective January 1, 2005, in accordance with the provisions of IFRS 3 (Business Combinations) and the revised IAS 36 (Impairment of Assets) goodwill and other intangible assets with indefinite useful lives aquired prior to March 31, 2004 are no longer amortized (see Note 12).
5. Given the forthcoming sale of our food business in The Dial Corporation, Scottsdale, Arizona, USA, we have applied the provisions of IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) for the first time in these consolidated financial statements (see Note 21).

The restatement of the figures for fiscal 2004 in accordance with IAS 8 had the following impact on the equity of the Henkel Group:

in million euros	
Equity at December 31, 2004 as reported	**4,604**
Recognition of share-based payments as an expense (IFRS 2)	–4
Offset of actuarial gains/losses against revenue reserves (IAS 19.93 A)	–403
Increase in deferred tax assets (IAS 19.93 A and IFRS 2)	149
Equity at January 1, 2005 restated	**4,346**

The impact on net earnings for 2004 was as follows:

in million euros	
Net earnings 2004 as reported	**1,736**
Change in operating profit due to application of IFRS 2	–4
Change in financial items due to application of IAS 19.93 A	7
Change in taxes on income as a result of restatement	–1
Net earnings 2004 restated	**1,738**

2004 net earnings restated and comparable

To increase transparency, the statement of income figures for 2004 have been made comparable to those for 2005 by adjusting certain items, with the adjusted figures being shown in the "restated and comparable" column.

As a result of the discontinuation of the scheduled amortization of goodwill in 2005, the comparable figure for EBIT in 2004 is 200 million euros higher. In respect of Ecolab Inc., which is accounted for using the equity method, an adjustment was also made for the amortization of goodwill (2004: 9 million euros), resulting in an improvement in the figure for financial items.

On January 9, 2006, Ecolab Inc. announced that it would apply the new SFAS 123 (R) for the first time in its consolidated financial statements at December 31, 2005 and recognize share-based payments as an expense. The prior-year figure for financial items has been shown on a comparable basis (–6 million euros).

in million euros		
Net earnings 2004 restated		**1,738**
Gain on exchange of investment in Clorox	–1,770	
Advanced Restructuring costs	408	
Goodwill impairment losses	242	
Adjustment for exceptional items		–1,120
Change in taxes on income on exceptional items		–72
Discontinuation of amortization of goodwill (EBIT)		200
Discontinuation of amortization of goodwill (financial items)		9
Change in financial items due to application of SFAS 123 (R) in Ecolab Inc.		–6
Change in taxes on income due to comparable presentation of financial items		–1
Net earnings 2004 restated and comparable		**748**

Notes to the Consolidated Statement of Income

(0) Effect of significant acquisitions

Effect of significant acquisitions and first-time consolidations on the statement of income in the year 2005 in million euros

	Sovereign (whole year)	Other acquisitions (whole year)	**Total 2005**	Sovereign (post-acquisition)	Other acquisitions (post-acquisition)	**Total 2005**
Sales	347	203	**550**	347	116	**463**
Net earnings	**18**	**13**	**31**	**18**	**6**	**24**

(1) Sales

Sales comprise sales of goods and services less sales deductions. Sales are recognized once physical delivery or service performance has been effected. In the case of goods, this coincides with the transfer of risk. It must also be probable that the economic benefits associated with the transaction will flow to the company and the costs incurred in respect of the transaction can be measured reliably. Services are generally provided in conjunction with the sale of goods.

An analysis of sales by business sector and geographical region is shown in the segment information on pages 64 and 65.

(2) Cost of sales

Cost of sales comprises the cost of products and services sold and the purchase cost of merchandise sold. It consists of the directly attributable cost of materials and primary production cost, as well as indirect production overheads including the appropriate amount of wear and tear on non-current assets. The effect of the restatement as a result of IFRS 2 (Share-based Payment) was 2 million euros in fiscal 2004.

(3) Marketing, selling and distribution costs

In addition to marketing organization and distribution costs, this item comprises mainly advertising, sales promotion and market research costs. Also included here are the costs of technical advisory services for customers and amounts written off accounts receivable of 22 million euros in 2005 (2004: 20 million euros). The effect of the restatement as a result of IFRS 2 (Share-based Payment) was 1 million euros in fiscal 2004.

(4) Research and development costs

Research costs may not be recognized as an asset. Development costs are recognized as an asset if all the criteria for recognition are met, the research phase can be clearly distinguished from the development phase and the expenditure can be attributed to distinct individual project phases. Currently, the criteria set out in IAS 38 for recognizing development costs have not all been met due to a high level of interdependence within the development projects and the uncertainty as to which products will eventually be marketable.

(5) Administrative expenses

Administrative expenses include personnel and non-personnel costs of Group management, and of the personnel, purchasing, accounts and information technology departments. The effect of the restatement as a result of IFRS 2 (Share-based Payment) was 1 million euros in fiscal 2004.

(6) Other operating income

Other operating income in million euros

	restated 2004	**2005**
Gains on disposal of non-current assets	17	**9**
Income from release of provisions	15	**31**
Income from release of valuation allowances for doubtful debts	3	**4**
Write-ups of non-current assets	3	**7**
Foreign exchange gains on operating activities	22	**37**
Other operating revenue	86	**95**
Total	**146**	**183**

Other operating revenue includes income not related to the period under review, insurance compensation amounting to 3 million euros (2004: 3 million euros) and refunds of 2 million euros (2004: 2 million euros).

(7) Other operating charges

Other operating charges in million euros

	restated 2004	2005
Write-downs on miscellaneous assets	9	6
Foreign exchange losses on operating activities	30	31
Losses on disposal of non-current assets	3	3
Other operating expenses	61	38
Total	**103**	**78**

(8) Current restructuring costs

This heading includes severance pay as well as current annual payments for early retirement schemes and similar schemes arising from operational changes.

(9) Financial items

Financial items in million euros

	restated 2004	restated and comparable 2004	2005
Income from associated companies	162	165	72
Net result from other investments	2	2	18
Net interest	–156	–156	–210
Total	**8**	**11**	**–120**

Our associated company Ecolab Inc. no longer amortizes goodwill systematically in accordance with US accounting regulations. Effective fiscal 2005, similar rules apply for companies which comply with IFRS. We therefore no longer deduct scheduled goodwill amortization in arriving at the at-equity income from Ecolab Inc. The income for 2004 has been stated on a comparable basis (+9 million euros). For fiscal 2005, Ecolab Inc. is applying the new SFAS 123 (R) standard, which requires the recognition of share-based payments as an expense. We have adjusted the at-equity income for the prior year so that it is comparable (–6 million euros).

From 2005, net interest no longer includes amortization of actuarial gains/losses as these are offset against revenue reserves. Net interest for the prior year has therefore been restated (+7 million euros).

The significant increase in the net result from other investments in 2005 is due to the appreciation of our investment in the Lion Corporation, Japan. This investment has been reported at fair value in accordance with IAS 39. The increase in fair value recognized in income was 22 million euros.

Net result from other investments in million euros

	restated 2004	2005
Income from other participations	1	1
Income from profit and loss transfer agreements	1	1
Income from the remeasurement of financial assets at fair value	0	22
Gains on disposal of financial assets and marketable securities	2	–
Write-downs on shares in affiliated and other companies and on marketable securities	–2	–4
Losses on disposal of financial assets	0	–2
Total	**2**	**18**

Net interest in million euros

	restated 2004	2005
Interest from long-term loans	17	7
Interest and similar income from third parties	20	43
Other financial income	21	20
Total interest income	**58**	**70**
Interest charges payable to third parties	–106	–142
Other financial charges	–7[1]	–44
Interest expense for pension provisions less expected income from plan assets	–101	–94
Total interest expense	**–214**	**–280**
Total	**–156**	**–210**

[1] restated to take account of actuarial gains/losses of 7 million euros

(10) Taxes on income

Earnings before taxes on income and analysis of taxes in million euros

	restated 2004	2005
Earnings before tax	**1,924**	**1,042**
Current taxes	280	259
Deferred taxes	–94	13
Taxes on income	**186**	**272**

Principal components of tax expense and income in million euros

	restated 2004	2005
Current tax expense/income in the reporting year	280	261
Current tax adjustments for prior years	0	–2
Deferred tax expense/income from temporary differences	–118	29
Deferred tax expense/income from changes in tax rates	8	2
Increase in valuation allowances on deferred tax assets	26	17

Allocation of deferred taxes in million euros

	Deferred tax assets		Deferred tax liabilities	
	restated Dec. 31, 2004	**Dec. 31, 2005**	restated Dec. 31, 2004	**Dec. 31, 2005**
Intangible assets	132	**139**	397	**523**
Property, plant and equipment	50	**57**	91	**105**
Financial assets	22	**35**	37	**35**
Inventories	28	**30**	15	**7**
Other receivables and miscellaneous assets	123	**78**	78	**35**
Special tax-allowable items	11	**6**	122	**110**
Provisions	421	**475**	59	**76**
Liabilities	42	**47**	12	**9**
Tax credits	19	**12**	–	**–**
Loss carry-forwards	30	**66**	–	**–**
	878	**945**	**811**	**900**
Amounts netted	–356	**–427**	–356	**–427**
Valuation allowances	–46	**–62**	–	**–**
Balance sheet figures	**476**	**456**	**455**	**473**

Deferred tax assets and liabilities are accounted for with respect to temporary differences between the balance sheet valuation of an asset or liability and its tax base, and with respect to tax loss carry-forwards and consolidation procedures affecting earnings. Amounts netted represent tax assets and liabilities relating to the same tax authority.

The deferred tax balances recognized by German and foreign companies with respect to temporary differences on provisions relate mainly to pensions and similar obligations. The increase in deferred tax assets under the heading "Provisions" is due to the remeasurement of the pension obligations. Deferred tax assets at December 31, 2004 increased by 149 million euros as a result of the restatement. At the same time, there was an increase in the tax expense of 1 million euros.

Of the increase in deferred tax liabilities under the heading "Intangible assets" 99 million euros is due to the consolidation of two US companies for the first time.

German companies have recognized deferred tax balances in respect of special tax-allowable items relating to property, plant and equipment and to reinvestment reserves.

Whether deferred tax assets can be recognized depends on the probability that the deferred tax assets can actually be realized in the future. The level of probability must be more than 50 percent and must be supported by appropriate business plans. From 2004, German tax loss carry-forwards can be fully offset up to a maximum amount of 1 million euros, and thereafter up to a limit of 60 percent (minimum taxation). Included under the heading "Loss carry-forwards" are deferred tax assets of 35 million euros in respect of loss carry-forwards from 2004 in Germany, which are expected to be utilized by the end of 2007.

The valuation allowances on deferred tax assets of 62 million euros (2004: 46 million euros) are in respect of temporary differences between the balance sheet valuation of an asset or liability and its tax base, and also tax loss carry-forwards, and are based on a reassessment of the likelihood that they will be utilized in the future. Of the total amount, 37 million euros relates to loss carry-forwards and 25 million euros to temporary differences associated with property, plant and equipment.

Deferred taxes have not been recognized with respect to tax loss carry-forwards of 513 million euros (2004: 419 million euros). Deferred taxes of 12 million euros have been recognized with respect to tax credits.

Expiry dates of unused tax loss carry-forwards and tax credits

	Unused tax losses		Tax credits	
	Dec. 31, 2004	**Dec. 31, 2005**	Dec. 31, 2004	**Dec. 31, 2005**
Must be utilized within:				
1 year	57	**73**	–	**–**
2 years	54	**54**	–	**–**
3 years	55	**38**	–	**–**
more than 3 years	186	**285**	–	**–**
Carry forward without restriction	216	**318**	27	**16**
Total	**568**	**768**	**27**	**16**

This table includes loss carry-forwards arising from the disposal of assets of 35 million euros (of which 13 million euros must be utilized within one year and 22 million euros may be carried forward without restriction). In many countries, different tax rates apply to losses on the disposal of assets and to operating profits, and in some cases losses on the disposal of assets may only be offset against profits on the disposal of assets. Deferred taxes have not been recognized with respect to unused loss carry-forwards arising from the disposal of assets.

Deferred tax liabilities have not been recognized on the retained profits of foreign subsidiaries. The retained profits are available to the subsidiaries for further investment. The individual company reconciliations – prepared on the basis of the tax rates applicable in each country and taking into account consolidation procedures – have been summarized in the reconciliation below. The estimated tax charge, based on the tax rate applicable to Henkel KGaA of 40 percent, is reconciled to the effective tax charge disclosed.

Calculation of the effective tax rate in million euros

		restated 2004		**2005**
Earnings before taxes on income		1,924		**1,042**
Tax rate (including municipal trade tax) on income of Henkel KGaA		40.0 %		**40.0 %**
Estimated tax charge		**770**		**417**
Tax reductions due to differences between local tax rates and the hypothetical tax rate		–83		**–68**
Tax reductions for prior years		–		**–2**
Tax increases due to non-deductible amortization of goodwill		128		**–**
Effects of different tax rates on net result from investments (at-equity investments)		–59		**–27**
Tax reductions due to tax-free income and other items		–809[1]		**–107**
Tax increases due to non-deductible expenses and other items		239		**59**
comprising				
Non-deductible expenses	126		**40**	
Municipal trade tax additions and effects of tax audits	103		**8**	
Non-deductible withholding tax	10		**11**	
Total tax charge		**186**		**272**
Effective tax rate		**9.67 %**		**26.10 %**

[1] including tax-free income arising from the exchange of the investment in Clorox

German corporation tax legislation stipulates a statutory rate of 25.0 percent plus the solidarity surcharge of 5.5 percent. After taking into account municipal trade tax, this gives an expected tax rate of 40.0 percent for 2005.

Effective 2005, goodwill is no longer amortized.

The decrease in "Tax reductions due to tax-free income" to −107 million euros (2004: −809 million euros) is due mainly to the tax-free income recognized in 2004 as a result of the exchange of the investment in Clorox.

The deferred tax assets charged to equity amount to 133 million euros (2004 restated: 37 million euros). The increase is due mainly to the revaluation of the pension obligations.

(11) Minority interests

The amount shown here represents the share of profits and losses attributable to other shareholders.

The share of profits amounted to 19 million euros (2004: 14 million euros) and that of losses to 6 million euros (2004: 13 million euros).

Notes to the Consolidated Balance Sheet

The accounting policies for balance sheet items are described in the relevant Note.

Effect of significant acquisitions

Effect on balance sheet headings of significant acquisitions on first-time consolidation in 2005 in million euros

	Sovereign[1]	Other acquisitions
Intangible assets/Property, plant and equipment	512	89
Financial assets	–	–
Other non-current assets	–	–
Deferred tax assets	41	2
Current assets	74	76
Non-current liabilities	102	2
Current liabilities	201	44

[1] fully consolidated from January 1, 2005

Non-current assets

All non-current assets with finite lives are amortized or depreciated using the straight-line method on the basis of estimated useful lives standardized throughout the Group, with impairment losses being recognized when required.

The following standard useful lives continue to be used as the basis for calculating amortization and depreciation:

Useful life in years	
Intangible assets	8 to 20
Residential buildings	50
Office buildings	33 to 40
Research and factory buildings, workshops, stores and staff buildings	25 to 33
Production facilities	20 to 25
Machinery	7 to 10
Office equipment	10
Vehicles	5
Factory and research equipment	5

Goodwill and intangible assets with indefinite useful lives are not subject to scheduled amortization.

(12) Intangible assets

Cost in million euros	Trademark rights and other rights			
	Assets with indefinite useful lives	Assets with finite useful lives	Goodwill	**Total**
At January 1, 2004	**–**	**607**	**2,280**	**2,887**
Changes in the Group/acquisitions	87	1,056	2,583	**3,726**
Additions	–	26	–	**26**
Disposals	–	–43	–	**–43**
Reclassifications	–	2	–	**2**
Translation differences	–	–112	–275	**–387**
At December 31, 2004	**87**	**1,536**	**4,588**	**6,211**
IFRS 3/IAS 38 according to reclassification	929	–929	–1.304	**–1,304**
At January 1, 2005	**1,016**	**607**	**3,284**	**4,907**
Changes in the Group/acquisitions	11	269	284	**564**
Additions	–	43	–	**43**
Disposals[1]	–44	–13	–25	**–82**
Reclassifications	–	29	–3	**26**
Translation differences	114	76	441	**631**
At December 31, 2005	**1,097**	**1,011**	**3,981**	**6,089**
[1] of which assets held for sale	–44	–3	–25	**–72**

Accumulated amortization in million euros

	Trademark rights and other rights			
	Assets with indefinite useful lives	Assets with finite useful lives	Goodwill	**Total**
At January 1, 2004	**–**	**351**	**895**	**1,246**
Changes in the Group/acquisitions	–	–	–	**–**
Write-ups	–	–	–	**–**
Scheduled amortization	–	68	200	**268**
Impairment losses	–	–	242	**242**
Disposals	–	–43	–	**–43**
Reclassifications	–	1	–	**1**
Translation differences	–	–24	–33	**–57**
At December 31, 2004	**–**	**353**	**1,304**	**1,657**
IFRS 3/IAS 38 according to reclassification	–	–	–1,304	**–1,304**
At January 1, 2005	**–**	**353**	**–**	**353**
Changes in the Group/acquisitions	–	–	–	**–**
Write-ups	–	–	–	**–**
Scheduled amortization	–	49	–	**49**
Impairment losses	4	5	–	**9**
Disposals	–	–10	–	**–10**
Reclassifications	–	–2	–	**–2**
Translation differences	–	30	–	**30**
At December 31, 2005	**4**	**425**	**–**	**429**

Net book value in million euros

	Trademark rights and other rights			
	Assets with indefinite useful lives	Assets with finite useful lives	Goodwill	**Total**
As at December 31, 2005	**1,093**	**586**	**3,981**	**5,660**
As at December 31, 2004	**87**	**1,183**	**3,284**	**4,554**

Intangible assets acquired for valuable consideration are stated initially at acquisition cost; internally generated software is stated at production cost. Thereafter goodwill and trademark rights and other rights with indefinite useful lives are subject to an impairment test at least once a year.

In the course of our annual impairment test, we reviewed the carrying values of goodwill and trademark rights and other rights with indefinite useful lives.

The following table shows the cash-generating units together with the associated goodwill, trademark rights and other rights with indefinite useful lives at book value at the balance sheet date.

Book values in million euros	Dec. 31, 2004		**Dec. 31, 2005**	
	Trademark rights and other rights with indefinite useful lives	Goodwill	Trademark rights and other rights with indefinite useful lives	Goodwill
Cash-generating units				
Heavy-duty detergents	–	599	**334**	**689**
Special detergents	–	79	**26**	**72**
Household cleaners	87	810	**324**	**927**
Total Laundry & Home Care	**87**	**1,488**	**684**	**1,688**
Retail products	–	902	**347**	**1,021**
Hair salon products	–	34	**14**	**37**
Total Cosmetics/Toiletries	**–**	**936**	**361**	**1,058**
Adhesives and sealants for construction, craftsmen and DIY	–	89	**44**	**255**
Adhesives and adhesive tapes for home, school and office	–	149	**–**	**161**
Total Consumer and Craftsmen Adhesives	**–**	**238**	**44**	**416**
Transport and electronics	–	297	**4**	**365**
Industrial adhesives	–	325	**–**	**454**
Total Henkel Technologies	**–**	**622**	**4**	**819**

The assessment for goodwill impairment was based on future estimated cash flows, which were obtained from corporate budgets with a three-year financial forecasting horizon. For the period after that, an average growth rate of 1 percent in the cash flows was assumed for the purpose of the impairment test. The euro to US dollar exchange rate applied was 1.30. The cash flows in all cash-generating units were discounted at a uniform Group-wide rate for the cost of capital of 10 percent before tax. Due to the fall in interest rates, our weighted average cost of capital before tax has decreased from the year 2006 from 11 percent to 10 percent. We continue to expect the post-tax figure to be 7 percent (for the calculation of the cost of capital see page 20 in the Group Management Report, "Value-based management and control"). The use of the same figure throughout the Group for weighted average cost of capital complies with the internal management approach for the operations of the Henkel Group.

No goodwill impairment losses were recognized as a result of the impairment test.

In the *Laundry & Home Care* business sector, we have assumed an average increase in sales during the three-year budget period of 2 to 3 percent per annum with a constant share of the world market.

Average sales growth in the *Cosmetics/Toiletries* business sector over the three-year forecasting horizon is budgeted at 2 to 3 percent per annum. With the worldwide cosmetics market expected to grow at an annual rate of 2 percent, this would mean a slight increase in market share.

In the *Consumer and Craftsmen Adhesives* business sector, average sales growth over the three-year forecasting horizon is budgeted at 5 to 6 percent per annum. General market growth is expected to be at around 2.5 percent per annum, so we forecast an increase in market share.

Average sales growth of 5 to 6 percent per annum is budgeted in the *Henkel Technologies* business sector, while growth in the relevant markets is expected to be around 2 to 3 percent per annum. We expect to further expand our market share, especially in the growth regions in Asia.

In all the business sectors, we have assumed that any rise in the price of raw materials will be offset to a large extent by increases in the prices charged to customers. Together with further cost-cutting measures, this will result in stable gross margins in the Consumer and Craftsmen Adhesives and Henkel Technologies business sectors. In the Laundry & Home Care and Cosmetics/Toiletries business sectors we are expecting gross margins to increase. Isolated negative budget variances would not necessarily lead to impairment losses.

The trademark rights and other rights with an indefinite useful life (mainly purchased trademark rights from the acquisition of Dial and from the purchase of businesses in connection with the exchange of the Clorox investment) are established in their markets and will continue to be promoted in the future.

In the impairment tests for trademark rights and other rights with an indefinite useful life of 1,093 million euros, the assumptions underlying the respective purchase price allocations at the time of acquisitions were updated. The impairment tests resulted in the recognition of an impairment loss of 4 million euros in Henkel Technologies in the USA.

(13) Property, plant and equipment

Cost in million euros

	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	**Total**
At Jan. 1, 2004	**1,513**	**2,247**	**773**	**106**	**4,639**
Changes in the Group/acquisitions	25	119	17	26	187
Additions	48	127	74	95	344
Disposals	–26	–106	–71	–7	–210
Reclassifications	29	53	13	–97	–2
Translation differences	–34	–46	–16	–7	–103
At Dec. 31, 2004/Jan. 1, 2005	**1,555**	**2,394**	**790**	**116**	**4,855**
Changes in the Group/acquisitions	38	56	4	2	100
Additions	49	131	89	124	393
Disposals[1]	–69	–100	–70	–5	–244
Reclassifications	25	41	20	–112	–26
Translation differences	19	147	37	4	207
At Dec. 31, 2005	**1,617**	**2,669**	**870**	**129**	**5,285**
[1] of which assets held for sale	–38	–18	–3	–1	–60

Accumulated depreciation in million euros

	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	**Total**
At Jan. 1, 2004	**736**	**1,630**	**588**	**2**	**2,956**
Changes in the Group/acquisitions	–5	–8	–	–	–13
Write-ups	–	–3	–	–	–3
Scheduled depreciation	43	126	83	–	252
Impairment losses	16	60	15	1	92
Disposals	–12	–96	–66	–2	–176
Reclassifications	–1	1	–1	–	–1
Translation differences	–18	–29	–13	–	–60
At Dec. 31, 2004/Jan. 1, 2005	**759**	**1,681**	**606**	**1**	**3,047**
Changes in the Group/acquisitions	–	3	–	–	3
Write-ups	–5	–2	–	–	–7
Scheduled depreciation	46	178	55	–	279
Impairment losses	4	–	–	–	4
Disposals[1]	–35	–72	–63	–1	–171
Reclassifications	–1	–13	16	–	2
Translation differences	–7	80	10	–	83
At Dec. 31, 2005	**761**	**1,855**	**624**	**0**	**3,240**
[1] of which assets held for sale	–18	–1	–	–	–19

Net book value in million euros

	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	**Total**
At December 31, 2005	**856**	**814**	**246**	**129**	**2,045**
At December 31, 2004	**796**	**713**	**184**	**115**	**1,808**

Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of overheads; interest charges on borrowings and selling and distribution costs are not included. Cost figures are shown net of investment grants and allowances. There were liabilities secured by mortgages at December 31, 2005 of 33 million euros (2004: 23 million euros). Real estate held as investment property is immaterial. The periods over which the assets are depreciated are based on their estimated useful lives as set out on page 77. Scheduled depreciation and impairment losses recognized are disclosed in the statement of income according to the functions for which the assets are used.

Non-current assets do not generally comprise individual components which are significant in relation to the total acquisition and manufacturing cost (component approach). For this reason, they have not been recorded and depreciated separately.

(14) Financial assets

Shares in affiliated companies and other investments disclosed in financial assets are measured initially at cost and subsequently at their fair values. Other investments for which the fair value cannot be reliably determined or which are held-to-maturity are measured subsequently at amortized cost.

The shares in the associated company Ecolab Inc. are accounted for using the equity method at the appropriate proportion of its net assets (see Notes 9 and 50, pages 72 and 107). The percentage holding is calculated on the basis of shares outstanding. The updated net asset figure is translated at the mid rate of exchange on the balance sheet date.

The shares in the other investment in Lion Corporation, Japan, are reported at their fair value. The value of this investment has risen by 22 million euros since the previous year.

Cost in million euros

	Affiliated companies	Shares in associated companies	Other investments	Long-term loans	Total
At Jan. 1, 2004	**55**	**716**	**115**	**539**	**1,425**
Changes in the Group/acquisitions	–28	–	–3	–	–31
Additions	326	120	5	10	461
Disposals	–5	–385[1]	–1	–415	–806
Reclassifications	–	–	–	–	–
Translation differences	–	12	–	–	12
At Dec. 31, 2004/Jan. 1, 2005	**348**	**463**	**116**	**134**	**1,061**
Changes in the Group/acquisitions	–316	–	–	–	–316
Additions	–	54	24	–	78
Disposals	–1	–	–11	–127[2]	–139
Reclassifications	–	–	–	–	–
Translation differences	2	13	–	–	15
At Dec. 31, 2005	**33**	**530**	**129**	**7**	**699**

[1] disposal of Clorox at book value

[2] disposal of claim against Cognis for indemnification of pension obligations, through allocation to CTA pension trust (121 million euros)

Accumulated write-downs in million euros

	Affiliated companies	Shares in associated companies	Other investments	Long-term loans	Total
At Jan. 1, 2004	7	–	18	1	26
Changes in the Group/acquisitions	–	–	–	–	–
Write-ups	–	–	–	–	–
Write-downs	–	–	2	–	2
Disposals	–4	–	–1	–	–5
Reclassifications	–	–	–	–	–
Translation differences	–	–	–	–	–
At Dec. 31, 2004/Jan. 1, 2005	3	–	19	1	23
Changes in the Group/acquisitions	–	–	–	–	–
Write-ups	–	–	–	–	–
Write-downs	–	–	4	–	4
Disposals	–	–	–10	–	–10
Reclassifications	–	–	–	–	–
Translation differences	1	–	–	–	1
At Dec. 31, 2005	4	–	13	1	18

Net book value in million euros

	Affiliated companies	Shares in associated companies	Other investments	Long-term loans	Total
At December 31, 2005	29	530	116	6	681
At December 31, 2004	345	463	97	133	1,038

(15) Other non-current assets

These include non-current receivables and miscellaneous assets, which are stated at their face value or at fair values. Income tax assets amounted to 5 million euros (2004: 16 million euros). As soon as risks are identified in other non-current assets, valuation allowances are set up.

(16) Deferred tax

Deferred taxes result from the following factors:

- timing differences between the balance sheet valuation of an asset or liability and its tax base
- tax losses carried forward which are expected to be utilized
- consolidation procedures at Group level.

The allocation of deferred tax assets to the various balance sheet headings is shown in Note 10 (Taxes on income, page 73).

The deferred tax assets relating to the prior year increased as a result of the restatement in accordance with IAS 19 (recognition of actuarial gains/losses in equity) and with IFRS 2 (Share-based Payment) by a total amount of 149 million euros.

(17) Inventories

Inventories are stated at purchase or manufacturing cost. In the Henkel Technologies business sector, we switched during the reporting year to full absorption costing. The effect of the change in measurement was an increase of 5 million euros. Inventories are measured using the FIFO and the weighted average method as appropriate.

Manufacturing cost includes – in addition to direct costs – appropriate proportions of necessary overheads (e.g. the goods inward department, raw materials store, filling and other costs prior to the finished products store), as well as production-related administrative expenses and pension costs for employees engaged in the production process, and production-related depreciation charges. Interest charges incurred during the period of manufacture are however not included.

Inventories are written down to their net realizable value if, on the basis of lower quoted or market prices, this is lower than cost at the balance sheet date. The write-down, based on the gross value, was 32 million euros (2004: 14 million euros).

As a result of the planned disposal of the food business of Dial, an amount of 29 million euros has been transferred from inventories to assets held for sale.

Analysis of inventories in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Raw materials and supplies	350	**368**
Work in process	58	**28**
Finished products and merchandise	780	**830**
Payments on account for merchandise	8	**6**
Total	**1,196**	**1,232**

(18) Trade accounts receivable

Trade accounts receivable are due within one year. Specific risks are covered by appropriate valuation allowances. A total of 22 million euros (2004: 20 million euros) has been provided in the form of valuation allowances.

(19) Other current receivables and miscellaneous assets

Other current receivables and miscellaneous assets in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Amounts receivable from non-consolidated affiliated companies	22	**4**
Amounts receivable from companies in which an investment is held	7	**5**
Derivatives with positive fair values	124	**32**
Miscellaneous assets	368	**298**
Deferred charges	36	**39**
Total	**557**	**378**

Other current receivables and miscellaneous assets are shown at face value or at their fair values. Any risks associated with them are covered by valuation allowances.

Miscellaneous assets include the following:

- financial receivables from third parties: 53 million euros (2004: 57 million euros)
- amounts due from employees: 13 million euros (2004: 13 million euros)
- amounts due from suppliers: 27 million euros (2004: 17 million euros)
- insurance claims: 2 million euros (2004: 6 million euros)
- payments made on account: 13 million euros (2004: 15 million euros).

(20) Liquid funds and marketable securities

Liquid funds and marketable securities in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Liquid funds	137	**223**
Marketable securities	1,558	**989**
Total	**1,695**	**1,212**

Marketable securities are stated at their fair values at the balance sheet date. They comprise mainly fixed-interest bonds. Price movements are recognized in the statement of income under financial items.

(21) Assets held for sale

The amounts included under the heading "Assets held for sale" relate principally to assets which are expected to be disposed of under an asset deal when the food business (Armour) of The Dial Corporation, USA is sold. The food business is not a significant line or core business within the Henkel Group.

The measurement of the assets held for sale at the lower of their carrying amount and fair value less costs to sell did not lead to the recognition of any impairment losses. Amortization and depreciation have not been charged since October 1, 2005. The assets held for sale comprise mainly trademark rights, property, plant and equipment, inventories and goodwill. The business which is to be sold is included in the Laundry & Home Care business sector.

(22) Subscribed capital

Subscribed capital in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Ordinary bearer shares	222	**222**
Non-voting preferred bearer shares	152	**152**
Capital stock	**374**	**374**
Comprising 86,598,625 ordinary shares and 59,387,625 non-voting preferred shares		

At the Annual General Meeting of Henkel KGaA held on April 30, 2001, the personally liable managing partners were authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital of the Company in one or more installments at any time up to May 1, 2006, up to a total of 25,600,000 euros by issuing new non-voting preferred shares to be paid up in cash (authorized capital). The personally liable managing partners were authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to exclude the statutory pre-emptive rights of existing shareholders. Pre-emptive rights may only be excluded, however, for fractional entitlements or on condition that the issue price for the new shares is not significantly less than the quoted market price of shares of the same category at the time the issue price is finally fixed.

At the Annual General Meeting of Henkel KGaA on April 19, 2004, the personally liable managing partners were authorized to purchase ordinary or preferred shares in the Company not exceeding 10 percent of the capital stock, i.e. up to 14,598,625 shares, at any time up to October 18, 2005. This authorization was renewed for the period until October 17, 2006 at the Annual General Meeting on April 18, 2005, and at the same time the authorization granted in the previous year was withdrawn.

The personally liable managing partners were authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to dispose of treasury shares acquired, without first offering them to existing shareholders, by:

- offering and transferring them to members of the Management Board and certain executive management personnel of Henkel KGaA and to members of the management boards and certain executive management personnel of certain affiliated companies in Germany and abroad under the terms of the Stock Incentive Plan of the Henkel Group, or
- selling them to third parties or transferring them in other ways for the purpose of acquiring businesses, parts of businesses or investments in businesses or for forming business combinations, or
- selling them for cash in a way other than on the stock market or via an offer addressed to all the shareholders, provided that the selling price of the shares is not significantly lower than the quoted market price at the time of the sale. In this case, the number of shares sold, together with the new shares issued out of authorized capital while excluding the pre-emptive rights of existing shareholders, must not exceed 10 percent of the existing capital stock when the shares are issued or sold.

Insofar as members of the Management Board of the Company are among those eligible to participate in the Stock Incentive Plan, the Shareholders' Committee is authorized – with the approval of the Supervisory Board – to offer and transfer the shares.

The personally liable managing partners were also authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to cancel the treasury stock without any further resolution in General Meeting being required.

Treasury stock held by the Company at December 31, 2005 amounted to 2,374,580 preferred shares. This represents 1.63 percent of the capital stock and a proportional nominal value of 6.07 million euros. 992,680 of these shares were originally bought back in 2000, 808,120 in 2001 and 694,900 in 2002 (2,495,700 shares in total). In 2004, options were exercised under the Stock Incentive Plan for the first time, leading to a reduction of 3,565 in treasury stock held with a proportional nominal value of 9,126.40 euros (0.0024 percent of the capital stock). In 2005, there was a reduction of 117,555 in treasury stock due to the exercise of options. The proportional nominal value of the capital stock amounted to 300.94 thousand euros (0.08 percent). The gain on disposal was measured on the basis of the market prices prevailing at the time of disposal, and amounted to 8 million euros.

(23) Capital reserve

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

(24) Revenue reserves

The revenue reserves include the following:

- amounts allocated in the financial statements of Henkel KGaA in previous years
- amounts allocated from consolidated net earnings of the Group less minority interests
- buy-back of treasury stock by Henkel KGaA at cost
- the effects of the restatement in accordance with IAS 19.93 A and IFRS 2.

Revenue reserves also include changes in the equity valuation of our investment in Ecolab Inc. reflected directly in equity. These result mainly from movements in foreign exchange rates and from share repurchase schemes in Ecolab Inc.

(25) Gains and losses recognized in equity

The items under this heading represent the differences on translation of the annual financial statements of foreign subsidiary companies and the effects of the revaluation of financial instruments recognized in equity.

Due to the increase in the value of the dollar against the euro, the negative translation difference at December 31, 2005 was down by 599 million euros compared with December 31, 2004 (2004: negative amount increased by –322 million euros compared with the end of the previous year).

(26) Minority interests

The minority interests comprise the shares of third parties in the equity of a number of companies included in the consolidation, primarily in Asia.

(27) Pensions and similar obligations

Employees of companies included in the consolidation have entitlements under company pension plans which are either defined-contribution or defined-benefit plans. These take different forms depending on the legal, financial and tax regime in each country. The level of benefits provided is based, as a rule, on the length of service and earnings of the person entitled.

The defined-contribution plans are structured in such a way that the Company pays contributions to public or private sector institutions on the basis of statutory or contractual terms or on a voluntary basis and has no further obligation regarding the payment of benefits to the employee.

In defined-benefit plans, the liability for pensions and other post-employment benefits is calculated at the present value of the future obligations (the projected unit credit method). This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account.

Effective January 1, 2004, most of the defined-benefit plans in Germany were harmonized on the basis of a unit-based plan (Pensions 2004).

In 2005, Henkel issued a 1.3 billion euro bond, the proceeds of which will be used to cover pension obligations. To provide protection under civil law of the pension entitlements of future and current pensioners against insolvency, the proceeds of the bond issue and certain other assets were allocated to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted on the capital market in accordance with investment policies laid down in the trust agreement.

Trends in wages, salaries and retirement benefits in percent

	Germany		USA		Rest of world[1]	
	2004	**2005**	2004	**2005**	2004	**2005**
Discount factor	4.8	**4.3**	6.0	**5.75**	2.0 – 6.0	**2.0 – 6.0**
Income trend	3.0	**3.0**	4.0 – 4.3	**4.0**	2.0 – 4.0	**1.7 – 4.0**
Retirement benefit trend	1.0 – 1.25	**1.5**	–	**–**	0 – 2.5	**0 – 3.0**
Expected return on plan assets	5.5	**4.8**	7.0 – 8.0	**7.0**	2.0 – 7.0	**1.7 – 7.0**
Expected increases in costs for medical benefits	–	**–**	10.0 – 10.5	**5.0 – 10.5**	6.0 – 10.5	**5.25 – 10.5**

[1] for the eurozone, a discount factor of 4.3 percent is used (2004: 4.8 percent)

The expected return on plan assets is derived from asset/liability studies for all major pension schemes.

Pensions and similar obligations at December 31, 2004 in million euros

	Germany	USA	Rest of world	**Total**
At January 1, 2004	**1,644**	**126**	**167**	**1,937**
Changes in the Group/Translation differences	**4**	**167**	**2**	**173**
Actuarial gains/losses	**94**	**2**	**19**	**115**
Current service cost	34	21	30	**85**
Amortization of past service cost	1	–	1	**2**
Gains/losses arising from the termination and curtailment of plans	3	–	1	**4**
Interest expense	84	39	21	**144**
Expected return on plan assets	–	–27	–16	**–43**
Allocated	**122**	**33**	**37**	**192**
Employer's contributions to pension funds	–3	–26	–18	**–47**
Employer's payments for pensions and similar obligations	–103	–18	–17	**–138**
Utilized	**–106**	**–44**	**–35**	**–185**
Released	**–**	**–7**	**–7**	**–14**
At December 31, 2004	**1,758**	**277**	**183**	**2,218**
Analysis of provisions for pensions and other post-employment benefits:				
Present value of unfunded obligations	1,731	258	89	**2,078**
Present value of funded obligations	61	435	366	**862**
Fair value of plan assets	–34	–416	–273	**–723**
Unrecognized past service cost	–	–	1	**1**
Total	**1,758**	**277**	**183**	**2,218**

Fair value of plan assets at December 31, 2004 in million euros

	Germany	USA	Rest of world	Total
At January 1, 2004	**33**	**206**	**248**	**487**
Changes in the Group/Translation differences	–	168	–1	**167**
Employer's contributions to pension funds	3	26	18	**47**
Employees' contributions to pension funds	–	–	1	**1**
Retirement benefits paid out of plan assets	–3	–24	–6	**–33**
Expected return on plan assets	–	27	16	**43**
Actuarial gains (+)/losses (–)	1	13	–3	**11**
At December 31, 2004	**34**	**416**	**273**	**723**
Actual return on plan assets	1	40	13	**54**

Pensions and similar obligations at December 31, 2005 in million euros

	Germany	USA	Rest of world	Total
At January 1, 2005	**1,758**	**277**	**183**	**2,218**
Changes in the Group/Translation differences	**–**	**40**	**4**	**44**
Actuarial gains/losses	**187**	**16**	**20**	**223**
Current service cost	51	24	24	**99**
Amortization of past service cost	–	–	2	**2**
Gains/losses arising from the termination and curtailment of plans	3	–	–	**3**
Interest expense	85	45	23	**153**
Expected return on plan assets	–9	–32	–18	**–59**
Allocated	**130**	**37**	**31**	**198**
Employer's contributions to pension funds	–1,421	–17	–19	**–1,457**
Employer's payments for pensions and similar obligations	–105	–20	–13	**–138**
Utilized	**–1,526**	**–37**	**–32**	**–1,595**
Released	**–**	**–21**	**–6**	**–27**
At December 31, 2005	**549**	**312**	**200**	**1,061**
Analysis of provisions for pensions and other post-employment benefits:				
Present value of unfunded obligations	165	254	100	**519**
Present value of funded obligations	1,841	560	434	**2,835**
Fair value of plan assets	–1,457	–502	–335	**–2,294**
Unrecognized past service cost	–	–	1	**1**
Total	**549**	**312**	**200**	**1,061**

Fair value of plan assets at December 31, 2005 in million euros

	Germany	USA	Rest of world	Total
At January 1, 2005	**34**	**416**	**273**	**723**
Changes in the Group/Translation differences	1	67	6	**74**
Employer's contributions to pension funds	1,421	17	19	**1,457**
Employees' contributions to pension funds	–	–	1	**1**
Retirement benefits paid out of plan assets	–8	–30	–11	**–49**
Expected return on plan assets	9	32	18	**59**
Actuarial gains (+)/losses (–)	–	–	29	**29**
At December 31, 2005	**1,457**	**502**	**335**	**2,294**
Actual return on plan assets	9	32	47	**88**

Actuarial gains and losses are recognized in the year in which they arise as part of the pension provision and included in the "Statement of recognized income and expense" in accordance with IAS 19.93B. Due to the change from the corridor approach, which was used until 2004, to the full disclosure of the actuarial gains and losses in the balance sheet, the comparatives for 2004 have been restated in accordance with IAS 8. This restatement increased the provision for pensions at January 1, 2004 by 295 million euros to a total of 1,937 million euros. After taking into account actuarial gains/losses that arose in fiscal 2004 of 115 million euros and fiscal 2005 of 223 million euros, accumulated actuarial gains and losses of 633 million euros were offset against revenue reserves at December 31, 2005.

Of the amounts allocated to the provision in 2005, 104 million euros (2004: 91 million euros) is included in operating profit (pension costs as part of personnel costs, page 98) and 94 million euros (2004: 101 million euros) in financial items (page 72). The expenses shown in operating profit and all the releases from provisions are allocated by function depending on the sphere of activity of the employee.

Analysis of plan assets in million euros

	December 31, 2004		**December 31, 2005**	
	Fair value	in %	Fair value	in %
Shares	475	65.7	**779**	**34.0**
Bonds	220	30.4	**650**	**28.3**
Other assets	25	3.5	**699**	**30.5**
Cash	3	0.4	**166**	**7.2**
Total	**723**	**100.0**	**2,294**	**100.0**

At the end of 2005, other assets include commercial paper of 299 million euros and fixed-term deposits of 250 million euros. Also shown here is a claim against Cognis for indemnification of pension obligations in the amount of 121 million euros.

(28) Other long-term provisions

Changes in 2004 in million euros

	Balance Jan. 1, 2004	Special circum-stances	Utilized	Released	Allocated	**Restated balance Dec. 31, 2004**
Tax provisions	188	–8	20	–	61	**221**
Sundry long-term provisions	189	7[1]	143	38	209	**224**
Strong for the Future/Extended Restructuring	19	–19	–	–	–	**–**
Advanced Restructuring	–	–	–	–	154	**154**
Total	**396**	**–20**	**163**	**38**	**424**	**599**

[1] includes effects of restatement in accordance with IFRS 2 (Share-based Payment) of 4 million euros

Changes in 2005 in million euros

	Balance Jan. 1, 2005	Special circum-stances	Utilized	Released	Allocated	**Balance Dec. 31, 2005**
Tax provisions	221	–8	103	2	79	**187**
Sundry long-term provisions	224	–10	121	7	113	**199**
Advanced Restructuring	154	–111	–	2	–	**41**
Total	**599**	**–129**	**224**	**11**	**192**	**427**

The amounts recognized as other long-term provisions are the best estimates of the expenditure required to settle the present obligations at the balance sheet date. Provisions which include significant interest elements are discounted to the balance sheet date.

Special circumstances include changes in the Group/acquisitions, movements in exchange rates and adjustments to reflect changes in maturity as time passes.

The tax provisions comprise accrued tax liabilities and amounts set aside for the outcome of external tax audits and legal proceedings.

The sundry long-term provisions pertain to identifiable obligations toward third parties, which are costed in full. The restructuring provisions comprise amounts relating to measures which have not been completed by the 2006 year-end.

Analysis of sundry long-term provisions by function in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Sales	10	**9**
Personnel	52	**36**
Production and engineering	53	**40**
Administration	109	**114**
Total	**224**	**199**

(29) Long-term borrowings

Long-term borrowings comprise all long-term interest-bearing obligations outstanding at the balance sheet date. Maturities of long-term obligations at December 31, 2004:

Analysis in million euros

	Residual term		
	more than 5 years	between 1 and 5 years	**Dec. 31, 2004 Total**
Bonds	1,012	339	**1,351**
(of which amounts secured)			***(35)***
Loans from employee welfare funds of the Henkel Group	–	9	**9**
(of which amounts secured)			***(4)***
Bank loans and overdrafts	5	20	**25**
(of which amounts secured)			***(12)***
Total	**1,017**	**368**	**1,385**

The bonds at December 31, 2004 included the following:

Bonds in million euros

Issued by	Type	Nominal value	Interest rate	Interest fixed
Henkel KGaA	Bond	1,000	4.2500	see[1]
Dial Corporation	USD bond	184	7.0000	until 2006
Dial Corporation	USD bond	147	6.5000	see[2]

[1] fixed-rate interest of bond coupon: 4.25 percent, converted using interest rate swaps into a floating interest rate (2.5751 percent at Dec. 31, 2004)
[2] fixed-rate interest of bond coupon: 6.5 percent, converted using interest rate swaps into a floating interest rate (4.84 percent at Dec. 31, 2004)

Maturities of long-term obligations at December 31, 2005:

Analysis in million euros	Residual term more than 5 years	Residual term between 1 and 5 years	**Dec. 31, 2005 Total**
Bonds	2,332	–	**2,332**
(of which amounts secured)			***(40)***
Loans from employee welfare funds of the Henkel Group[1]	8	17	**25**
(of which amounts secured)			***(17)***
Bank loans and overdrafts	–	43	**43**
(of which amounts secured)			***(4)***
Total	**2,340**	**60**	**2,400**

[1] obligations with floating interest rates, or interest rates pegged < 1 year

The bonds at December 31, 2005 included the following:

Bonds in million euros Issued by	Type	Nominal value	Interest rate	Interest fixed
Henkel KGaA	Bond	1,000	4.2500	see[1]
Henkel KGaA	Hybrid bond	1,300	5.3750	see[2]

[1] fixed-rate interest of bond coupon: 4.25 percent, converted using interest rate swaps into a floating interest rate (2.8571 percent at Dec. 31, 2005)
[2] fixed-rate interest of bond coupon: 5.375 percent, 50 percent converted using interest rate swaps into a floating interest rate (4.8385 percent at Dec. 31, 2005)

The bond issued by Henkel KGaA for 1 billion euros in 2003 with a coupon of 4.25 percent matures in June 2013.

With the acquisition of The Dial Corporation on March 29, 2004, Henkel assumed a bond for 250 million US dollars with a coupon of 7.00 percent, maturing in August 2006, and a second bond for 200 million US dollars with a coupon of 6.50 percent, maturing in September 2008. Henkel canceled and redeemed both US dollar bonds in the first quarter of 2005 in accordance with their terms and conditions.

The 1.3 billion euro subordinated hybrid bond issued by Henkel KGaA in November 2005 to finance a large part of the pension obligations in Germany matures in 99 years in 2104. Under the terms of the bond, the coupon for the first ten years is 5.375 percent. After that period, from November 25, 2015, it will be possible to redeem the bond. If it is not redeemed, the bond interest will be based on the 3-month Euribor interest rate plus a premium of 2.85 percent. The bond terms also stipulate that if there is a “cash flow event”, Henkel KGaA has the option or the obligation to defer the interest payments. A cash flow event is deemed to have occurred if the adjusted cash flow from operating activities is below a certain percentage of the net liabilities (20 percent for optional interest deferral, 15 percent for mandatory interest deferral); see §3(4) of the bond terms and conditions for the definition. On the basis of the cash flow calculated at December 31, 2005 the percentage was 40.81 percent (+20.81 percent).

(30) Other non-current liabilities

Other non-current liabilities relate largely to amounts due to employees.

(31) Deferred tax

The provisions for deferred tax relate to differences between the accounting base in the consolidated balance sheet and the tax base used by the individual companies included in the consolidation to calculate their taxable profits (page 74).

(32) Short-term provisions

Changes in 2004 in million euros

	At Jan. 1, 2004	Special circum-stances	Utilized	Released	Allocated	**At Dec. 31, 2004**
Tax provisions	84	33	89	5	62	**85**
Sundry short-term provisions	510	222	564	2	498	**664**
Strong for the Future/Extended Restructuring	66	19	66	–	–	**19**
Advanced Restructuring	–	–	–	–	150	**150**
Total	**660**	**274**	**719**	**7**	**710**	**918**

Changes in 2005 in million euros

	At Jan. 1, 2005	Special circum-stances	Utilized	Released	Allocated	**At Dec. 31, 2005**
Tax provisions	85	7	70	3	95	**114**
Sundry short-term provisions	664	40	520	51	574	**707**
Strong for the Future/Extended Restructuring	19	–	19	–	–	**–**
Advanced Restructuring	150	111	148	2	–	**111**
Total	**918**	**158**	**757**	**56**	**669**	**932**

The amounts recognized as short-term provisions are the best estimates of the expenditure required to settle the present obligations at the balance sheet date. The restructuring provisions consist of amounts for those measures which will be completed by December 31, 2006.

Analysis by function in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Sales	178	**257**
Personnel	213	**294**
Production and engineering	42	**44**
Administration	231	**112**
Total	**664**	**707**

(33) Short-term borrowings

Short-term borrowings in million euros

	Dec. 31, 2004 Total	**Dec. 31, 2005 Total**
Bonds	27	**31**
Commercial paper	1,070	**767**[1]
Loans from employee welfare funds of the Henkel Group	4	**1**
Bank loans and overdrafts	313	**245**
(of which amounts secured)	*(142)*	***(154)***
Other financial liabilities	375	**361**
Total	**1,789**	**1,405**

[1] from the US dollar Commercial Paper Program (total amount: 2 billion US dollars)

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

(34) Trade accounts payable

Trade accounts payable include invoices received and accruals for invoices outstanding in respect of goods and services received.

(35) Other current liabilities

Other current liabilities in million euros

	Dec. 31, 2004 Total	**Dec. 31, 2005 Total**
Amounts due to non-consolidated affiliated companies	15	**2**
Amounts due to other companies in which investments are held	3	**1**
Liabilities in respect of social security	33	**32**
Income tax liabilities	72	**8**
Other tax liabilities	58	**70**
Derivatives with negative fair values	10	**106**
Sundry current liabilities including deferred income	170	**236**
(of which amounts secured)	*(1)*	***(–)***
Total	**361**	**455**

Sundry current liabilities include:

- amounts due to customers of 20 million euros (2004: 14 million euros)
- commission payable of 5 million euros (2004: 4 million euros)
- amounts due to employees of 81 million euros (2004: 128 million euros)
- advance payments received of 4 million euros (2004: 4 million euros).

(36) Contingent liabilities

Contingent liabilities in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Bills and notes discounted	6	**4**
Liabilities under guarantee and warranty agreements	20	**20**

(37) Other financial commitments

The amounts shown are the nominal values.

Payment obligations under rent, leasehold and lease agreements are shown at the total amounts payable up to the earliest date when they can be terminated. At December 31, 2005, they were due for payment as follows:

Rent, leasehold and lease commitments in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Due in the following year	27	**25**
Due within 1 to 5 years	65	**102**
Due after 5 years	31	**6**
Total	**123**	**133**

The order commitments for property, plant and equipment amounted to 36 million euros at the end of 2005 (2004: 27 million euros); the purchase commitments from toll manufacturing contracts amounted to 47 million euros (2004: 63 million euros).

Payment commitments under the terms of agreements for capital increases and share purchases signed prior to December 31, 2005 amounted to 26 million euros (2004: 22 million euros).

(38) Derivatives and other financial instruments

Treasury standards and systems

The Corporate Treasury department manages currency exposure and interest rates centrally for the Group and therefore all transactions with financial derivatives and other financial instruments. Trading, treasury control and settlement (front, middle and back offices) are separated both physically and in terms of organization. The parties to the contracts are German and international banks which Henkel monitors regularly, in accordance with Group Treasury standards, for creditworthiness and the quality of their quotations. Financial derivatives are used to manage currency exposure and interest rate risks in connection with operating activities and the resultant financing requirements in accordance with the Treasury standards. Financial derivatives are entered into exclusively for hedging purposes.

The currency and interest rate risk management of the Group is supported by an integrated Treasury system, which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, integrated means that the entire process from the initial recording of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on intranet-based multi-bank dealing platforms. These foreign currency transactions are automatically transferred into the Treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are integrated into the Treasury system by data transfer. As a result, it is possible to retrieve and measure at any time all currency and interest rate risks across the Group and all derivatives entered into to hedge the exposure to these risks. The Treasury system supports the use of various risk concepts. For example, the risk positions and the success of the risk management in each company, country and group of countries can be determined on a mark-to-market basis at any time and compared to a benchmark.

Recognition and measurement of financial instruments

Financial assets are measured initially at cost. Securities for which the fair value can be reliably determined and other investments which are quoted on the stock exchange are categorized and recognized at fair value through profit or loss in accordance with IAS 39. Subsequent measurement at amortized cost applies only to those other investments in companies disclosed under non-current assets and to those securities held as current assets for which the fair value cannot be reliably determined or which are held-to-maturity investments. Changes in the fair value of all securities and inverstments in companies are recognized immediately in the statement of income under financial items. Long-term loans are accounted for at amortized cost.

Specific financial instruments by category in million euros

	Dec. 31, 2004	**Dec. 31, 2005**
Securities	**1,558**	**989**
– at fair value through profit or loss	–	**989**
– available-for-sale	1,558	**–**
Other investments/Shares in affiliated companies	**442**	**145**
– at fair value through profit or loss	–	**78**
– available-for-sale	56	**–**
– at amortized cost	386	**67**

Until December 31, 2004, available-for-sale financial instruments were recognized at their fair value through the income statement. From January 1, 2005, these financial instruments were re-categorized as "at fair value through profit or loss".

Financial liabilities with a fixed maturity are measured at amortized cost using the effective interest method. Financial liabilities in respect of which a hedging transaction has been entered into, and which meet the conditions set out in IAS 39 regarding a hedging relationship, are measured under hedge accounting rules.

All derivative financial instruments entered into by the Group are measured initially at cost and subsequently at their fair values on the balance sheet date. The accounting treatment of gains and losses on remeasurement to fair value depends on whether the conditions set out in IAS 39 with respect to hedge accounting have been met.

Hedge accounting is not used for the majority of derivative financial instruments. The changes in the fair value of those derivatives which, from an economic point of view, represent effective hedges in line with the Group strategy, are recognized in profit or loss. These are virtually matched by changes in the fair value of the hedged underlying transactions.

Under hedge accounting, a derivative financial instrument is identified as a hedge of the exposure to changes in the fair value of an asset or a liability (fair value hedge), as a hedge of the exposure to variability in future cash flows (cash flow hedge) or as a hedge of a net investment in a foreign entity.

Fair value hedges: The gain or loss from remeasuring derivatives used to hedge the exposure to changes in fair value is recognized in financial items in the statement of income together with the gain or loss on the hedged item. The interest rate derivatives entered into qualify as fair value hedges. The gain or loss on remeasuring the derivatives (2005: 26 million euros, 2004: 56 million euros) and the gain or loss on the hedged bonds (2005: –26 million euros, 2004: –54 million euros) have both been included in financial items in the statement of income.

Cash flow hedges: Changes in the fair value of derivatives used to hedge the exposure to variability in cash flows are recognized directly in equity. The portion of the gain or loss on the derivative that is determined to be ineffective in respect of the risk being hedged is reported directly in the statement of income. If the firm commitment or an expected or highly probable future transaction results in the recognition of an asset or a liability, the accumulated gains or losses on the hedging instrument that were recognized directly in equity are included in the initial measurement of the asset or liability. Otherwise, the amounts recognized directly in equity are included in the statement of income in those reporting periods in which the hedged transaction impacts the statement of income.

Hedge of a net investment in a foreign entity: Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. This is the case with forward exchange contracts that are used to hedge the exposure to currency translation risks in foreign entities. As a result of the formally documented hedge accounting relationship, –23 million euros was recorded in equity at December 31, 2005 (2004: 13 million euros). The changes in fair value during fiscal 2005 were taken directly to gains and losses recognized in equity after taking account of deferred taxes (2005: –36 million euros, 2004: 10 million euros).

Fair values of derivative financial instruments

The fair values of forward exchange contracts are calculated on the basis of current European Central Bank reference prices taking account of forward premiums and discounts. Currency options are measured using market quotations or recognized option pricing models. The fair values of interest rate hedging instruments are determined on the basis of discounted future expected cash flows using the ruling market interest rates over the remaining terms of the derivatives. These are shown in the table below for the four most important currencies. In each case these are the interest rates quoted on the inter-bank market at December 31.

Interest rates in percent per annum at December 31

	EUR		USD		JPY		GBP	
Maturities	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**
3 months	2.14	**2.47**	2.56	**4.52**	–0.02	**0.04**	4.81	**4.57**
6 months	2.22	**2.61**	2.80	**4.66**	0.02	**0.06**	4.78	**4.54**
1 year	2.41	**2.82**	3.13	**4.81**	0.06	**0.11**	4.79	**4.53**
2 years	2.63	**3.03**	3.20	**4.81**	0.18	**0.36**	4.84	**4.56**
5 years	3.17	**3.21**	3.85	**4.84**	0.68	**0.95**	4.86	**4.56**
10 years	3.75	**3.44**	4.51	**4.89**	1.48	**1.62**	4.86	**4.48**

Derivative financial instruments with a positive fair value at the balance sheet date are included in miscellaneous assets and those with a negative fair value included in other liabilities.

The following positions were held at the balance sheet date:

Derivative financial instruments at December 31 in million euros

	Nominal value		Positive fair value		Negative fair value	
	2004	**2005**	2004	**2005**	2004	**2005**
Forward exchange contracts[1]	2,969	**4,109**	110	**32**	–10	**–106**
(of which for hedging loans within the Group)	*(2,207)*	***(2,883)***	*(84)*	***(23)***	*(–5)*	***(–81)***
Currency options[1]	–	**62**	–	**–**	–	**–**
Interest rate swaps[2]	1,147	**1,650**	12	**38**	–	**–**
Cross currency swaps[1]	11	**11**	2	**–**	–	**–**
Total derivative financial instruments	**4,127**	**5,832**	**124**	**70**	**–10**	**–106**

[1] maturity period < 1 year [2] maturity period > 1 year

Most of the forward exchange contracts and currency options hedge risks arising from trade accounts receivable and Group financing in US dollars.

Supplementary Information on the Statement of Income/Balance Sheet

(39) Cost of materials

Cost of materials in million euros	restated 2004	2005
Cost of raw materials, supplies and merchandise	4,282	4,719
Cost of external services	168	285
Total	**4,450**	**5,004**

(40) Payroll costs

Payroll costs in million euros	restated 2004	2005
Wages and salaries	1,598	1,818
Social security contributions and staff welfare costs	309	340
Pension costs	107	115
Total	**2,014**	**2,273**

Share-based payment plans

The objective of the Henkel Stock Incentive Plan introduced in 2000 is to provide additional motivation for about 700 senior executive personnel around the world. Participants in the plan are granted option rights to subscribe for Henkel preferred shares, which may be exercised, once a vesting period of three years has elapsed, within a period not exceeding five years. Under the plan, rights were issued annually on a revolving basis, the relevant terms being revised each year by the Management Board and Shareholders' Committee. In 2004, options were issued for the last time, in this case to the members of the Management Board.

Each option granted carries the right to acquire up to eight Henkel preferred shares. The exact number of shares that can be bought per option at a specific price depends on whether and to what extent the performance targets are met. One target is based on absolute performance – the performance of the Henkel preferred share price. The other takes into account relative performance, comparing the movement in value of Henkel preferred shares with that of the Dow Jones Euro Stoxx 600 index. For both performance targets, the average market price of Henkel preferred shares at the date of issue is compared with the average market price three years later. The average market price is calculated in each case on the basis of 20 stock exchange trading days after the Annual General Meeting. For options issued prior to 2002, a period of 60 trading days is applied. The calculation of relative performance takes dividend payments and other rights and benefits into account as well as movements in the share price (total shareholder return). The subscription rights attached to an option are split into two categories. Up to five subscription rights can be exercised by reference to the absolute performance and up to three subscription rights by reference to the relative performance.

Option rights are granted to members of the Management Board and heads of divisions, and to managers of comparable status within German and foreign affiliated companies, on condition that they make a direct investment of one preferred share for each option.

On February 19, 2004, IFRS 2 (Share-based Payment) was issued. We have applied this Standard effective January 1, 2005. As a result, the total value of stock options granted to senior executive personnel at the grant date is determined using an option pricing model. The total value of the stock options calculated in this way is treated as a payroll cost spread over the period in which the Company receives the service of the employee. For fiscal years from 2005 onward, this cost in respect of the option rights granted in 2003 and 2004 is required to be expensed.

The table shows the number of option rights granted per tranche and the number of shares in the various tranches for which the vesting period has expired. It also shows the expense for the period resulting from the valuation of each tranche issued.

For the fourth tranche, management availed itself in 2004 of the right to pay in cash the gain arising on the exercise of the options to the employees participating in the plan. The other tranches are to be paid in shares.

Options/subscribable shares in number of shares/options

	1st tranche[1]	2nd tranche[1]	3rd tranche[1]	4th tranche	5th tranche	**Total**
At January 1, 2005	**75,607**	**77,460**	**114,580**	**119,190**	**12,600**	**399,437**
expressed in shares	*226,821*	*232,380*	*343,740*			*802,941*
Options granted	665	630	1,515	–	–	**2,810**
expressed in shares	*1,995*	*1,890*	*4,545*			***8,430***
Options exercised[2]	19,437	10,168	10,000	–	–	**39,605**
expressed in shares	*58,311*	*30,504*	*30,000*			***118,815***
Options forfeited	665	1,645	18,830	3,240	–	**24,380**
expressed in shares	*1,995*	*4,935*	*56,490*			***63,420***
At December 31, 2005	**56,170**	**66,277**	**87,265**	**115,950**	**12,600**	**338,262**
expressed in shares	*168,510*	*198,831*	*261,795*			***629,136***
of which held by the Management Board	2,190	3,777	10,650	10,800	12,600	**40,017**
expressed in shares	*6,570*	*11,331*	*31,950*			***49,851***
of which held by other senior executives	53,980	62,500	76,615	105,150	–	**298,245**
expressed in shares	*161,940*	*187,500*	*229,845*			***579,285***
Payroll costs 2005 (million euros)	–	–	–	12.9	0.3	**13.2**
Restated payroll costs 2004 (million euros) based on position at Dec. 31, 2004	–	–	–	3.6	0.1	**3.7**

[1] number of exercisable options [2] average price at exercise date = 80.30 euros

The costs are calculated on the basis of the Black-Scholes option pricing model, modified to reflect the special features of the Stock Incentive Plan. The cost calculation was based on the following factors:

Black-Scholes option pricing model

	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche
Exercise price (in euros)	63.13	71.23	74.67	57.66	71.28
Expected volatility of the share price (%)	35.0	33.1	32.4	25.4	26.6
Expected volatility of the index (%)	19.7	20.7	22.4	18.2	18.6
Expected lapse rate (%)	3	3	3	3	–
Risk-free interest rate (%)	5.19	4.18	4.78	3.12	3.96

The performance period relating to the first tranche ended on July 10, 2003, that of the second tranche on July 12, 2004 and that of the third tranche on May 16, 2005. Hereafter, at any time during a five-year period, the option holders in all three tranches may exercise their right to acquire three Henkel preferred shares. The allocation of three shares per option was made solely as a result of the Henkel preferred share outperforming the comparative index (relative performance).

The absolute performance targets were not met. The options may be exercised at any time, except during blocked periods which cover the four weeks prior to the reporting dates of the Company.

Global Cash Performance Units (CPU Plan)

Since the end of the Stock Incentive Plan in 2004, those eligible for that plan, the senior executive personnel of the Henkel Group (excluding members of the Management Board) have been part of the Global CPU Plan, which enables them to participate in any increase in price of Henkel preferred shares. If certain set targets are achieved, Cash Performance Units (CPUs) are granted, which give the member of the CPU Plan the right to receive a cash payment at a fixed point in time. The CPUs are granted on the condition that the member of the plan is employed for three years by Henkel KGaA or one of its subsidiaries in a position senior enough to qualify to take part. This minimum period of employment pertains to the calendar year in which the CPUs are granted and the two subsequent calendar years.

The number of CPUs granted depends not only on the seniority of the position of the executive, but also on achieving set target figures for operating profit (EBIT) and net earnings after minority interests. The value of a CPU in each case is the average price of the Henkel preferred share 20 stock exchange trading days after the Annual General Meeting following the performance period. In the case of exceptional increases in the share price, there is an upper limit or cap.

The total value of CPUs granted to senior executive personnel is remeasured at each balance sheet date and treated as a payroll cost over the period in which the plan member provides his or her services to Henkel. Across the world, at December 31, 2005, the CPU plan comprised 127,000 CPUs issued in the first tranche in 2004 (expense: 4.6 million euros) and 118,000 CPUs from the second tranche issued in 2005 (expense: 3.2 million euros). The corresponding provision amounts to 10.3 million euros.

Cash Performance Units Program

For members of the Management Board, the Stock Incentive Plan was superseded in 2005 by a new program. Under this, each eligible member of the Management Board is entitled to the monetary value of a total of up to 3,600 Henkel preferred shares for each fiscal year or tranche, depending on the increase in share price over a period of three years (the performance period) and the increase in earnings per preferred share. At the end of the performance period, the actual number and value of the shares is determined and the resulting tranche income paid net and in cash. Each member of the Management Board participating in the tranche must personally invest in Henkel preferred shares to the value of 25 percent of the tranche income and place these in a blocked custody account with a five-year drawing restriction.

If there is an absolute increase in share price during the performance period of at least 15 percent, 21 percent or 30 percent, each participant in the plan receives the monetary value equivalent to 600, 1,200 or 1,800 shares respectively. To calculate the increase in the share price, the average price in January of the year of issue of a tranche is compared with the average price in January of the third fiscal year following the year of issue (reference price). If the earnings per preferred share increase by at least 15 percent, 21 percent or 30 percent during the performance period, each participant receives the monetary value equivalent to 600, 1,200 or 1,800 shares respectively. To calculate the increase in earnings per preferred share, the earnings per preferred share of the fiscal year prior to the year of issue is compared with the earnings per preferred share of the second fiscal year after the year of issue. The amounts included in the calculation of the increase are in each case the earnings per preferred share as disclosed in the consolidated financial statements of the relevant fiscal years, adjusted for exceptional items. The financial statements must have been approved and an unqualified auditors' opinion issued thereon. The monetary value of a share is equivalent to the reference price of the Henkel preferred share. In the case of exceptional increases in the share price, there is an upper limit or cap. We have based the measurement of the provision for this program on achieving intermediate targets. This led to an expense of 1 million euros in the fiscal year. The provision at December 31, 2005 was for 1 million euros.

(41) Employee numbers

Annual average excluding apprentices and trainees, work experience students and interns, based on quarterly figures.

Employee numbers

	2004	2005
Production and engineering	23,238	24,615
Marketing, sales and distribution	14,660	15,151
Research, development and applications engineering	2,844	2,685
Administration	9,205	9,273
Total	**49,947**	**51,724**

(42) Value added statement

Value added statement in million euros

	restated 2004	in %	2005	in %
Total sales/income	**12,830**	**100.0**	**12,236**	**100.0**
Other charges				
Cost of materials	4,450	34.7	5,004	40.9
Amortization/depreciation of non-current assets	853	6.7	334	2.7
Other expenses	3,328	25.9	3,257	26.6
Value added	**4,199**	**32.7**	**3,641**	**29.8**
Paid to				
employees	2,014	48.0	2,273	62.4
central and local government	233	5.5	318	8.7
Providers of capital				
interest expense	214	5.1	280	7.7
shareholders	185	4.4	193	5.3
minority shareholders	1	–	13	0.4
Reinvested in the Group	**1,552**	**37.0**	**564**	**15.5**

(43) Segment information

The primary format for reporting the activities of the Henkel Group by segment is by business sector and the secondary format is by geographical region. This classification is linked to the Group's internal management systems for its operating business.

The activities of the Henkel Group are analyzed between the following segments: Laundry & Home Care, Cosmetics/ Toiletries, Consumer and Craftsmen Adhesives, Henkel Technologies and Corporate.

Laundry & Home Care

This business sector produces and sells detergents, laundry care products, dishwashing and cleaning products and insecticides. It is planned to dispose of the food business.

Cosmetics/Toiletries

The product range of this business sector comprises hair cosmetics, body care, skin care and oral care products, and hair salon products.

Consumer and Craftsmen Adhesives

This business sector produces and sells cyanoacrylates, office products for gluing and correcting applications, adhesive tapes, high-strength contact adhesives, and adhesives for home decoration, building and DIY applications.

Henkel Technologies

This sector produces and supplies adhesives, sealants and products for surface treatment.

Corporate

Group overheads and Central Research costs are incorporated into this segment, together with income and expenses that cannot be allocated to individual business sectors.

Reconciliation between net operating assets/capital employed and balance sheet figures in million euros

	Net operating assets		**Balance sheet**	
	Annual average[1] 2005	Dec. 31, 2005	**Dec. 31, 2005**	
Goodwill at book value	3,792	3,981	**3,981**	Goodwill at book value
Other intangible assets and property, plant and equipment (total)	3,542	3,724	**3,724**	Other intangible assets and property, plant and equipment (total)
			681	Financial assets
			456	Deferred tax assets
Inventories	1,355	1,232	**1,232**	Inventories
Trade accounts receivable from third parties	1,973	1,794	**1,794**	Trade accounts receivable from third parties
Intra-Group trade accounts receivable	655	770		
Other receivables and miscellaneous assets[2]	387	371	**722**	Other receivables and miscellaneous assets
			1,212	Liquid funds/Marketable securities
			142	Assets held for sale
Operating assets (gross)	**11,704**	**11,872**	**13,944**	**Total assets**
– Operating liabilities	3,316	3,432		
of which				
Trade accounts payable to third parties	1,220	1,333	**1,333**	Trade accounts payable to third parties
Intra-Group trade accounts payable	654	769		
Other provisions and other liabilities[2]	1,442	1,330	**1,873**	Other provisions and other liabilities
Net operating assets	**8,388**	**8,440**		
– Goodwill at book value	3,792			
+ Goodwill at cost	4,141			
Capital employed	**8,737**			

[1] the annual average is calculated on the basis of the twelve monthly figures

[2] only amounts relating to operating activities are taken into account in calculating net operating assets

(44) Information on earnings per share

The Stock Incentive Plan (Note 40, page 98) currently results in a dilution of earnings per share of 3 eurocents.

Earnings per share in million euros

	restated 2004[1]	restated and comparable 2004[2]	2005
Net earnings after minority interests	**1,737**	**747**	**757**
Dividends ordinary shares	107	107	113
Dividends preferred shares	74	74	77
Total dividends	181	181	190
Retained profit per ordinary share	939	341	342
Retained profit per preferred share	617	225	225
Retained profit	**1,556[5]**	**566[5]**	**567**
Number of ordinary shares	86,598,625	86,598,625	86,598,625
Dividend per ordinary share	1.24	1.24	1.30
Retained profit per ordinary share	10.84	3.94	3.95
EPS per ordinary share in euros	**12.08**	**5.18**	**5.25**
Number of outstanding preferred shares[3]	56,894,420	56,894,420	56,921,997
Dividend per preferred share	1.30	1.30	1.36
Retained profit per preferred share	10.84	3.94	3.95
EPS per preferred share in euros	**12.14**	**5.24**	**5.31**
Number of potential outstanding preferred shares[4]	57,005,603	57,005,603	57,192,167
Dividend per preferred share	1.30	1.30	1.36
Retained profit per preferred share	10.81	3.93	3.92
Diluted EPS per preferred share in euros	**12.11**	**5.23**	**5.28**

[1] application of IAS 19.93 A (discontinuation of amortization of actuarial gains/losses, including tax: 5 million euros) and IFRS 2 (recognition in the statement of income including tax: –3 million euros)

[2] adjusted for exceptional items (exchange of investment in Clorox, goodwill impairment losses, Advanced Restructuring costs) and for scheduled amortization of goodwill in EBIT (200 million euros) and financial items (9 million euros) and the effects of SFAS 123 (R) on our associated company Ecolab Inc. (–6 million euros)

[3] weighted annual average of preferred shares (Henkel buy-back program)

[4] weighted annual average of preferred shares adjusted for the potential number of shares arising from the Stock Incentive Plan

[5] including earnings attributable to treasury stock

(45) Information on the cash flow statement

To improve clarity in the cash flow statement for fiscal 2005, translation differences arising from the financing of the Group and changes in the fair value of derivatives were transferred from "Cash flow from operating activities" ("Change in receivables and miscellaneous assets") to "Cash flow from financing activities" ("Change in borrowings"). Cash flow from operating activities rose by 81 million euros as a result of the reclassification. The comparative figures for 2004 were also adjusted – here, the effect was 22 million euros. The prior-year restatement due to actuarial gains and losses being offset against revenue reserves had no impact on the cash flow statement. The restatement in accordance with IFRS 2 reduced operating profit (EBIT) by 4 million euros. The "Change in liabilities and provisions" rose by the same amount, so that cash flow from operating activities remained unchanged. In the restated and comparable column, the exceptional items included in the prior-year cash flow from operating activities have been eliminated. These consisted of the gain arising on the exchange of the strategic investment in Clorox of 1,770 million euros (included in EBIT and in "Net gains/losses on disposal of non-current assets"), goodwill impairment losses of 242 million euros and impairment losses relating to property, plant and equipment of 89 million euros (included in EBIT and in "Amortization/depreciation/write-ups of non-current assets"), and Advanced Restructuring costs of 408 million euros (included in EBIT and 319 million euros of which is included in "Changes in liabilities and provisions").

Cash flow from investing activities/acquisitions includes under the heading "Purchase of financial assets/acquisitions" the funds used to make acquisitions in order to expand the operations of the business sectors of 85 million euros (2004: 3,418 million euros). Of this amount, 14 million euros related to the Laundry & Home Care business sector (2004: 1,927 million euros), 2 million euros to Cosmetics/Toiletries (2004: 997 million euros), 45 million euros to Consumer and Craftsmen Adhesives (2004: 129 million euros) and 24 million euros to Henkel Technologies (2004: 365 million euros). The cash flow from investing activities/acquisitions in the prior year included under the heading "Proceeds on disposal of non-current assets" the cash inflow from the Clorox exchange deal of 2,282 million euros and the funds from the repaid Cognis loan of 413 million euros. Both these items have been eliminated in the comparable computation of free cash flow.

The proceeds of the hybrid bond of 1,297 million euros, which were allocated to the Contractual Trust Arrangement, are shown in the cash flow from financing activities. Long-term borrowings have increased as a result. The heading "Dividends and interest paid and received" includes dividends from Ecolab Inc. of 17 million euros (2004: 19 million euros). There were also no dividends from Clorox in 2005 (2004: 53 million euros).

(46) Related party transactions

Information required by § 160 (1) No. 8 of the German Corporation Law (AktG):

The Company has been notified that since July 8, 2004, a total of 44,583,767 votes, representing in total 51.48 percent of the voting rights in Henkel KGaA, are held by:

- 62 members of the families of the descendants of Fritz Henkel, the Company's founder
- two foundations set up by members of those families
- one civil-law partnership set up by members of those families
- 14 private limited companies set up by members of those families and one limited partnership with a limited company as general partner under the terms of a share-pooling agreement (agreement restricting the transfer of shares) as envisaged in § 22 (2) of the German Securities Trading Law (WpHG), whereby the shares held by the 14 private limited companies and by the limited partnership representing 17.74 percent are attributed (as envisaged in § 22 (1) No. 1 of the WpHG) to the family members who control those companies.

Jahr Vermögensverwaltung GmbH & Co. KG has informed us that it holds 5,290,000 ordinary shares in Henkel KGaA (6.11 percent of the voting capital of Henkel KGaA), thereby exceeding the threshold of 5 percent of the total voting rights in Henkel KGaA. Jahr Vermögensverwaltung GmbH & Co. KG has undertaken, under the terms of an agreement concluded with the parties to the Henkel share-pooling agreement, to exercise its voting rights at the Annual General Meeting of Henkel KGaA in concert with the parties to the Henkel share-pooling agreement whenever the latter have decided to cast all their votes in the same way. Under § 22 (2) WpHG, this agreement means that the voting rights in Henkel KGaA held by the parties to the Henkel share-pooling agreement and by Jahr Vermögensverwaltung GmbH & Co. KG (which together represent 57.59 percent of the total voting rights) are attributable to each other.

As in the case of Jahr Vermögensverwaltung GmbH & Co. KG, the 5 percent threshold of voting rights in Henkel KGaA is exceeded by Mr. Christoph Henkel with voting rights attached to 5,044,139 ordinary shares in Henkel KGaA (representing a rounded percentage of 5.825 percent). No other party to the share-pooling agreement has 5 percent or more of the total voting rights in Henkel KGaA, even after adding voting rights expressly granted under the terms of usufruct agreements.

Mr. Albrecht Woeste, Düsseldorf, is the authorized representative of the parties to the Henkel share-pooling agreement.

Members of the families of the descendants of Fritz Henkel, the Company's founder, who hold shares in Henkel KGaA, and members of the Shareholders' Committee advanced funds on loan to the Henkel Group in the year under review, on which interest has been payable at an average rate of 2.3125 percent (2004: 2.375 percent). The average total amount of capital advanced to the Henkel Group in fiscal 2005 was 377 million euros (2004: 380 million euros), while the balance at December 31, 2005 was 376 million euros (December 31, 2004: 368 million euros). Members of the Supervisory Board who are not also members of the Shareholders' Committee advanced funds on loan to the Henkel Group in the year under review averaging 6 million euros (2004: 13 million euros), while the balance at December 31, 2005 was 4 million euros (December 31, 2004: 13 million euros) at an average interest rate of 2.3125 percent (2004: 2.375 percent).

At December 31, 2005, a loan to a member of the Management Board for 401 thousand euros was included in miscellaneous assets. The loan is secured by a real estate mortgage and has a residual term of 4 years. During the fiscal year, mortgage repayments totaling 100 thousand euros were made in respect of this loan. The loan is subject to interest at the German Federal Bank base rate up to a maximum of 5 percent.

In addition to the above, some companies in the Henkel Group and the associated company Ecolab Inc. have supplied goods and services to each other on prevailing market terms during the course of normal business activities.

(47) Emoluments of the corporate bodies

The total cash emoluments (fixed fees, attendance fees and dividend bonus) for members of the Supervisory Board in the year under review amounted to 922 thousand euros including value added tax (2004: 882 thousand euros). Of these, 403 thousand euros related to fixed fees and 36 thousand euros to attendance fees. An amount of 483 thousand euros related to the dividend bonus, based on a dividend of 1.36 euros per preferred share.

The total notional value of the Long Term Incentive (LTI), which will first become payable in 2008, is 455 thousand euros as of December 31, 2005. The total emoluments (fixed fees, attendance fees, dividend bonus and LTI 2005) of the members of the Supervisory Board for the year 2005 were 1,377 thousand euros (2004: 882 thousand euros).

The total cash emoluments (fixed fees and dividend bonus) of the members of the Shareholders' Committee in the year under review amounted to 1,741 thousand euros (2004: 1,670 thousand euros). Of these, 1,179 thousand euros related to fixed fees and 562 thousand euros to the dividend bonus, based on a dividend of 1.36 euros per preferred share. At December 31, 2005, the notional value of the new Long Term Incentive (LTI) was 609 thousand euros. The total emoluments (fixed fees, dividend bonus and LTI 2005) of the members of the Shareholders' Committee for the year 2005 was 2,350 thousand euros (2004: 1,670 thousand euros).

The total remuneration paid to members of the Management Board for the performance of their duties at Henkel KGaA and at subsidiaries in the fiscal year was 14,153 thousand euros (2004: 13,513 thousand euros). Total emoluments include Cash Performance Units, for which the payments are dependent on set targets being achieved in 2008 (Long Term Incentive, see the section on the Cash Performance Units Program on page 100 of this report), which have a notional value of 1,049 thousand euros.

An analysis of total emoluments is given in the table below.

Total emoluments in thousand euros	2004	%	2005	%
Fixed fees	3,335	24.7	3,374	23.9
Performance-related pay (Short Term Incentive)	9,162	67.8	9,430	66.6
Other emoluments	350	2.6	300	2.1
Total cash remuneration	**12,847**		**13,104**	
Long Term Incentive				
2005: Cash Performance Units granted	–	–	1,049	7.4
2004: Option rights granted	666	4.9	–	
Total emoluments	**13,513**	**100.0**	**14,153**	**100.0**

During 2005, members of the Management Board exercised stock options to the value of 22 thousand euros. Options exercised by former members of the Management Board had a value of 166 thousand euros.

According to the recent ruling of the German Supreme Tax Court, the emoluments of the personally liable managing partners are subject to VAT, which represents deductible input tax for Henkel KGaA. We are applying this ruling retroactively from January 1, 2004. As there is no negative impact on Henkel KGaA, these tax amounts have not been included in the information set out above.

A total of 62,041 thousand euros (2004: 45,437 thousand euros) has been provided for pension obligations to former members of the Management Board of Henkel KGaA and the former managing directors of its legal predecessor, and their surviving dependents. Amounts paid during the year under review totaled 7,891 thousand euros (2004: 3,700 thousand euros). In both cases, the increase is due to one-time effects relating to the retirement of three members of the Management Board.

(48) Declaration of compliance with the German Corporate Governance Code

In February 2005, the Management Board, Supervisory Board and Shareholders' Committee approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code in accordance with § 161 of the German Corporation Law (AktG). The declaration has been made permanently available to shareholders on the Company website (www.ir.henkel.com).

(49) Principal subsidiary companies and groups of companies

A list of the investments held by Henkel KGaA and the Henkel Group is filed with the Commercial Register at the Municipal Court in Düsseldorf under number B 4724 and is also available for inspection at the Annual General Meeting.

(50) Associated company

Ecolab Inc., St. Paul, Minnesota, USA

Product groups: Products and services for industrial and institutional hygiene, textile hygiene, vehicle cleaning and automotive care, water treatment, pest control, commercial kitchen service.

- Henkel owns 72.7 million shares in Ecolab Inc., which represents an interest of 28.6 percent
- We expect an 8 percent increase in sales to 4.5 billion US dollars in fiscal 2005
- The share price of Ecolab Inc. rose by 3.2 percent in 2005. The market value of our investment at December 31, 2005 was 2,637 million US dollars (2004: 2,544 million US dollars). This is equivalent to 2,235 million euros (2004: 1,867 million euros).

(51) Auditors' fees and services

The fees charged for the services of the auditors KPMG in the 2004 and 2005 fiscal years were as follows:

Type of fees in million euros	2004	**2005**
Audit (including outlays)	7.6	**8.3**
Audit-related services	0.3	**0.3**
Tax advisory services	0.2	**0.1**
Other services	0.3	**0.3**
Total	**8.4**	**9.0**

Audit fees comprise the total fees including outlays paid or payable to the KPMG organization in respect of the audit of the group accounts and reporting thereon and the audit of the individual company financial statements of Henkel KGaA and its affiliated companies as required by law.

Fees for audit-related services comprise fees for the audit of purchase price allocations, audits in connection with information risk management and of compliance with contractual regulations.

Tax advisory services include fees for tax advice relating to employees of Henkel KGaA who live outside Germany and for employees of Henkel sent from Germany to work in Group companies outside Germany (International Executive Services).

Other services fees comprise agreed-upon procedures and support for process improvement activities.

(52) Events after the balance sheet date

On January 17, 2006, we entered into an exclusivity agreement with a potential acquirer of Dial's food business. At this stage, it is not possible to make a valid assessment as to the final conclusion of the contract.

Recommendation for Approval of the Annual Financial Statements and Appropriation of the Profit of Henkel KGaA

It is proposed that the annual financial statements of Henkel KGaA be approved as presented and that the unappropriated profit of 193,345,382.50 euros for the year ended December 31, 2005 be applied as follows:

a) Payment of a dividend of 1.30 euros per ordinary share on 86,598,625 shares	=	112,578,212.50 euros
b) Payment of a dividend of 1.36 euros per preferred share on 59,387,625 shares	=	80,767,170.00 euros
		193,345,382.50 euros

Treasury stocks are not entitled to dividend. The amount in unappropriated profit which relates to the treasury shares held by the Company at the date of the Annual General Meeting is transferred to other revenue reserves.

Düsseldorf, January 30, 2006

The personally liable managing partners of Henkel KGaA

Prof. Dr. Ulrich Lehner (Chairman of the Management Board)
Dr. Jochen Krautter

Annual Financial Statements of Henkel KGaA (summarized[1])

Statement of Income in million euros

	2004	**2005**
Sales	**2,664**	**2,653**
Cost of sales	–1,774	**–1,793**
Gross profit	**890**	**860**
Selling, research and administrative expenses	–1,000	**–998**
Other income (net of other expenses)	144	**214**
Exceptional items:		
Extended/Advanced Restructuring costs	–86	**–**
Operating profit	**–52**	**76**
Financial items	**258**	**373**
Profit on ordinary activities	**206**	**449**
Remeasurement of pension provisions	–	**–502**
Change in special accounts with reserve element	17	**13**
Earnings before tax	**223**	**–40**
Taxes on income	–36	**–47**
Net earnings/loss	**187**	**–87**
Allocation to revenue reserves	–2	**–**
Transfer from other revenue reserves	–	**280**
Unappropriated profit[2]	**185**	**193**

Balance Sheet in million euros

	2004	**2005**
Property, plant & equipment and intangible assets	595	**654**
Financial assets	5,276	**7,949**
Non-current assets	**5,871**	**8,603**
Inventories	174	**176**
Receivables and miscellaneous assets/ Deferred charges	3,793	**2,625**
Marketable securities	158	**163**
Liquid funds	33	**72**
Current assets	**4,158**	**3,036**
Total assets	**10,029**	**11,639**
Shareholders' equity	**4,051**	**3,783**
Special accounts with reserve element	236	**248**
Provisions	1,721	**2,349**
Liabilities	4,021	**5,259**
Total equity and liabilities	**10,029**	**11,639**

[1] The full financial statements of Henkel KGaA with the auditors' unqualified opinion are published in the Bundesanzeiger (German Federal Gazette) and filed with the Commercial Register in Düsseldorf; copies can be obtained from Henkel KGaA on request.

[2] Statement of income figures are rounded; unappropriated profit 184,586,207.50 euros for 2004 and 193,345,382.50 euros for 2005.

Statement by the Management Board

The personally liable managing partners of Henkel KGaA are responsible for the preparation of the annual financial statements and the consolidated financial statements and the management reports of Henkel KGaA and the Group. The annual financial statements, the consolidated financial statements and the management reports have been unanimously approved by the members of the Management Board.

The consolidated financial statements have been prepared on the basis of International Financial Reporting Standards (IFRS).

The Management Board 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 which are 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, corporate principles and strategies. Compliance with these principles is continually monitored by the Management Board. Compliance with standards and the reliability and functional efficiency of the control systems are kept under constant review across the Group by the Internal Audit department.

These measures, coupled with reporting procedures based on uniform standards guidelines throughout the Group, ensure that the financial records properly reflect all business transactions. They also enable the Management Board to recognize changes in business circumstances and the ensuing risks to assets and financial arrangements as they occur.

The risk management systems in place for Henkel KGaA and the Henkel Group ensure, in accordance with the requirements of company law, that any developments which could endanger the future of Henkel KGaA or of the Henkel Group are recognized in good time and that appropriate measures can be taken where necessary. They also provide the foundation for the accuracy of information disclosed in the consolidated financial statements and Group management report and in the individual company financial statements incorporated therein.

The Management Board is committed to delivering a steady increase in shareholder value. The Group is managed on principles of sustainable development in the interests of shareholders and in full awareness of its responsibility toward employees, society and the environment in every country in which Henkel operates.

As required by § 161 of the German Corporation Law (AktG), the Management Board, the Supervisory Board and the Shareholders' Committee have approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, in accordance with a resolution adopted by shareholders at the Annual General Meeting and as instructed by the Supervisory Board, has audited the annual financial statements, the consolidated financial statements and the related management reports. The auditors' report on the consolidated financial statements and the Group management report is reproduced on page 111. The annual financial statements, the consolidated financial statements, the management reports for Henkel KGaA and the Group and the audit report have been discussed in detail, with the auditors present, at a meeting of the Supervisory Board held for that purpose.

Düsseldorf, January 30, 2006

The Management Board of Henkel KGaA

Auditors' Report

We have audited the consolidated financial statements prepared by Henkel Kommanditgesellschaft auf Aktien, comprising the balance sheet and the related statements of income, recognized income and expense and cash flows, and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1, 2005 to December 31, 2005. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (German Commercial Code) are the responsibility of the legal representatives of the Company. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit. In addition we have been instructed to express an opinion as to whether the consolidated financial statements comply with full IFRS.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements prepared in accordance with the applicable financial reporting framework, and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment in which the Henkel Group operates and expectation as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidated financial statements, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the Company's legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union, the additional requirements of German commercial law pursuant to § 315a (1) HGB and with full IFRS and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks associated with Group's future development.

Düsseldorf, January 30, 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rüdiger Reinke	Günter Nunnenkamp
Wirtschaftsprüfer	Wirtschaftsprüfer

Corporate Management of Henkel KGaA

Boards/memberships as defined by § 125 (1), sentence 3, German Corporation Law (AktG) as at January 2006

Supervisory Board

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
Dipl.-Ing. Albrecht Woeste Chairman, Private Investor, Düsseldorf Born 1935 Member from June 27, 1988	Allianz Lebensvers.-AG, Deutsche Bank AG	R. Woeste & Co. GmbH & Co. KG
Winfried Zander Vice-Chairman, Chairman of the Works Council of Henkel KGaA, Düsseldorf Born 1954 Member from May 17, 1993		
Dr. Simone Bagel-Trah (until April 18, 2005) Private Investor, Düsseldorf Born 1969 Member from April 30, 2001		
Dr. Friderike Bagel (from April 18, 2005) Lawyer/Tax Adviser, Cologne Born 1971 Member from April 18, 2005		
Engelbert Bäßler (from March 1, 2005) Member of the Works Council of Henkel KGaA, Düsseldorf Born 1951 Member from March 1, 2005		
Hans Dietrichs Chairman of the Works Council of Henkel Genthin GmbH, Genthin Born 1943 Member from May 4, 1998		
Benedikt-Joachim Freiherr von Herman Forester, Wain Born 1941 Member from December 3, 1990		Holzhof Oberschwaben eG
Bernd Hinz Vice-Chairman of the Works Council of Henkel KGaA, Düsseldorf Born 1951 Member from May 4, 1998		
Prof. Dr. Dr. h.c. mult. Heribert Meffert Former director of the Institute of Marketing, University of Münster; Chairman of the Executive Board of the Bertelsmann Foundation, Münster Born 1937 Member from May 4, 1998	BASF Coatings AG, Kaufhof Warenhaus AG	UNIPLAN International GmbH & Co. KG

Supervisory Board (continued)

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
Andrea Pichottka Secretariat of the General Executive of IG Bergbau, Chemie, Energie, responsible for research/technology, women/equal opportunities, employees, advertising Hannover Born 1959 Member from October 26, 2004	Siltronic AG	
Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber Former Federal Minister for Research and Technology, Frankfurt am Main Born 1935 Member from May 4, 1998	Altana AG, Evotec AG (Chairman), Kabel Deutschland GmbH (Chairman), VfW AG (Vice-Chairman), Vodafone Deutschland GmbH	HBM BioVentures AG, Switzerland, Heidelberg Innovation BioScience, Venture II GmbH & Co. KG
Heinrich Thorbecke Private investor, St. Gallen, Switzerland Born 1936 Member from May 4, 1998		In Gassen Immobilien AG, Switzerland, Intervalor Holding AG, Switzerland, Kursana AG, Switzerland
Michael Vassiliadis Member of the Executive Committee of IG Bergbau, Chemie, Energie, Hannover Born 1964 Member from May 4, 1998	BASF AG, K + S AG (Vice-Chairman), K + S Kali GmbH (Vice-Chairman), STEAG AG	
Bernhard Walter Former Chairman of Dresdner Bank AG, Frankfurt am Main Born 1942 Member from May 4, 1998	Bilfinger Berger AG, DaimlerChrysler AG, Deutsche Telekom AG, Staatliche Porzellan-Manufaktur Meissen GmbH, Wintershall AG (Vice-Chairman)	KG Allgemeine Leasing GmbH & Co. (Chairman of Executive Committee)
Brigitte Weber (died on February 28, 2005) Member of the Works Council of Henkel KGaA, Düsseldorf Born 1950 Member from January 1, 2000		
Werner Wenning Chairman of the Executive Board of Bayer AG, Leverkusen Born 1946 Member from April 14, 2003	Gerling-Konzern Versicherungs-Beteiligungs AG	
Dr. Anneliese Wilsch-Irrgang Chemist, Düsseldorf Representative of the Senior Staff of Henkel KGaA Born 1958 Member from May 4, 1998		
Rolf Zimmermann Member of the Works Council of Henkel KGaA, Düsseldorf Born 1953 Member from October 9, 2002		

Shareholders' Committee

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
Dipl.-Ing. Albrecht Woeste Chairman, Private Investor, Düsseldorf Born 1935 Member from June 14, 1976	Allianz Lebensvers.-AG, Deutsche Bank AG	R. Woeste & Co. GmbH & Co. KG
Stefan Hamelmann Vice-Chairman Private Investor, Düsseldorf Born 1963 Member from May 3, 1999		Ecolab Inc., USA
Christoph Henkel Vice-Chairman Managing Partner Canyon Equity LLC, San Francisco Born 1958 Member from May 27, 1991		Henkel Corp., USA, SulphCo, Inc., USA
Dr. Paul Achleitner Member of the Board of Allianz AG, Munich Born 1956 Member from April 30, 2001	Bayer AG, RWE AG Group mandate: Allianz Global Investors AG, Allianz Immobilien GmbH (Chairman)	
Dr. Simone Bagel-Trah (from April 18, 2005) Private Investor, Düsseldorf Born 1969 Member from April 18, 2005		
Dr. h.c. Ulrich Hartmann Former Chairman of the Board of E.ON AG, Düsseldorf Born 1938 Member from May 4, 1998	Deutsche Bank AG, Deutsche Lufthansa AG, E.ON AG (Chairman), Hochtief AG, IKB Deutsche Industriebank AG (Chairman), Münchener Rückversicherungs-Gesellschaft AG	ARCELOR S.A., Luxembourg
Burkhard Schmidt Managing Director of Jahr Vermögensverwaltung GmbH & Co. KG, Hamburg Born 1960 Member from June 23, 1999	Druck- und Verlagshaus Gruner + Jahr AG	Jahr Top Special Verlag GmbH & Co. KG (Chairman)
Konstantin von Unger Partner, Blue Corporate Finance, London Born 1966 Member from April 14, 2003		Ten Lifestyle Management Ltd., UK
Karel Vuursteen Former Chairman of the Executive Board of Heineken N.V., Amsterdam Born 1941 Member from May 6, 2002		AB Electrolux, Sweden, Akzo Nobel nv, Netherlands, Heineken Holding N.V., Netherlands, ING Groep nv, Netherlands, Petroplus bv, Netherlands

Shareholders' Committee (continued)

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
Dr. Hans-Dietrich Winkhaus Former President and Chief Executive Officer of Henkel KGaA Düsseldorf Born 1937 Member from May 8, 2000	BMW AG, Degussa AG, Deutsche Lufthansa AG, Ergo Versicherungsgruppe AG, Schwarz-Pharma AG (Chairman)	

Subcommittees of the Shareholders' Committee

	Functions	Members
Finance Committee	The Finance Committee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal audit and corporate risk management.	Christoph Henkel, Chairman Stefan Hamelmann, Vice-Chairman Dr. Paul Achleitner Burkhard Schmidt Dr. Hans-Dietrich Winkhaus
Human Resources Committee	The Human Resources Committee deals principally with personnel matters for members of the Management Board, issues relating to human resources strategy, and remuneration.	Dipl.-Ing. Albrecht Woeste, Chairman Konstantin von Unger, Vice-Chairman Dr. Simone Bagel-Trah Dr. h.c. Ulrich Hartmann Karel Vuursteen

Management Board

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
Prof. Dr. Ulrich Lehner [1)] Chairman Born 1946 Member from April 1, 1995	E.ON AG, HSBC Trinkaus & Burkhardt KGaA	Ecolab Inc., USA, Novartis AG, Switzerland, The Dial Corp., USA (Chairman)
Dr. Jochen Krautter [1)] Henkel Technologies Born 1942 Member from June 15, 1992	BASF Coatings AG	Henkel Corp., USA (Chairman)
Alois Linder Consumer and Craftsmen Adhesives Born 1947 Member from January 1, 2002		Henkel Consumer Adhesives Inc., USA (Chairman), Henkel Corp., USA
Dr. Klaus Morwind [1)] (until June 30, 2005) Laundry & Home Care Born 1943 Member from January 1, 1991		Henkel Central Eastern Europe GmbH, Austria, Henkel Ibérica S.A., Spain
Kasper Rorsted Human Resources/Purchasing/ Information Technologies/ Infrastructure Services Born 1962 Member from April 1, 2005		Cable & Wireless, Plc., UK, Ecolab Inc., USA, Henkel of America Inc., USA, Henkel Central Eastern Europe GmbH, Austria, Henkel Belgium N.V., Belgium, Henkel France S.A., France, Henkel Norden AB, Sweden

1) Personally liable managing partner

Management Board (continued)

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
Prof. Dr. Uwe Specht [1] (until June 30, 2005) Cosmetics/Toiletries Born 1943 Member from May 6, 1985		Henkel & Cie AG, Switzerland
Dr. Friedrich Stara Laundry & Home Care Born 1949 Member from July 1, 2005		The Dial Corp., USA, Wiener Städtische Allgemeine Versicherung AG, Austria
Dr. Lothar Steinebach Finance Born 1948 Member from July 1, 2003		Ashwa Technologies Ltd., Saudi Arabia, Henkel Adhesives Middle East E.C., Bahrain, Henkel (China) Investment Co. Ltd., China, Henkel & Cie AG, Switzerland, Henkel Consumer Goods Inc., USA (Chairman), Henkel Ltd., UK, Henkel of America Inc., USA (Chairman), Henkel Technologies Egypt SAE, Egypt, Saudi Arabian Adhesives Factory Co., Saudi Arabia
Hans Van Bylen Cosmetics/Toiletries Born 1961 Member from July 1, 2005		Henkel Belgium N.V., Belgium, Henkel Nederland B.V., Netherlands, The Dial Corp., USA
Knut Weinke (until March 31, 2005) Human Resources/Logistics/Information Technologies/Infrastructure Services Born 1943 Member from January 1, 2002		cc-Hubwoo.com S.A., France, Henkel Belgium N.V., Belgium, Henkel France S.A., France, Henkel Nederland B.V., Netherlands, Henkel Norden AB, Sweden

[1] Personally liable managing partner

Operating Management

Dr. Ramón Bacardit
Research & Development, Technologies

Alain Bauwens
Home Care/MENA/Asia Pacific/Central America, Laundry & Home Care

Pietro Beccari
Hair Care/Cosmetics, Central Europe

Wolfgang Beynio
Finance/Controlling

Dr. Andreas Bruns
Infrastructure Services

Pierre Brusselmans
Corporate Development

Jean Fayolle
Industry, Technologies

Dr. Attilio Gatti
Automotive, Technologies

Dr. Wolfgang Gawrisch
Research/Technology

Heinrich Grün
Electronics & Metal Division, Technologies

Dr. Peter Hinzmann
Information Technologies

Dirk-Stephan Koedijk
Human Resources

Libor Kotlik
Operations & Supply Chain, Technologies

Andreas Lange
Laundry & Home Care, Western Europe

Dr. Thomas Müller-Kirschbaum
R&D/Technology/Supply Chain, Laundry & Home Care

Dr. Angela Paciello
Skin Care/Oral Care/Cosmetics Overseas/Russia/CIS

Peter Ruiner
Adhesives for Professionals and DIY

Stefan Sudhoff
Body Care/Fragrances/Cosmetics, South-West Europe/MENA

Christian-André Weinberger
Laundry Care

As at January 1, 2006

Management Circle I Worldwide

Giacomo Archi
Faruk Arig
Jan-Dirk Auris

Georg Baratta-Dragono
Michael Beard
Harald Bellm
Francisco Beltran
Marc Benoit
Karl Bethell
Dr. Joachim Bolz
Willem Boomsluiter
Robert Bossuyt
Hanno Brenningmeyer
Daniel Brogan
Eberhard Buse

Brad Casper
Marco Cassoli
Dundar Ciftcioglu
Michael James Clarkson
Julian Colquitt
Bertrand Conqueret
Jürgen Convent
Francisco Cornellana
Jesus Cuadrado

Keith Davis
Paul de Bruecker
Hermann Deitzer
Serge Delobel
Dr. Alexander Ditze
Peter Dowling
Eric Dumez

Wolfgang Eichstaedt
Dr. Horst Eierdanz
Ashraf El Afifi
Stephen J. Ellis
Mohamed Elmasry
Charles Evans

Thomas Feldbrügge
Dr. Peter Florenz
Dr. Thomas Foerster

Holger Gerdes
Roberto Gianetti
Pierre Gibaud
Dr. Karl W. Gladt
Ralf Grauel
Bartholomew Griffin
Peter Günther

Rainer M. Haertel
Ferdinand Harrer
Dr. Hubert Harth
Elizabeth Harvey
Ludger Hazelaar
Fridtjof Helemann
Michael Hillman
Georg Hoebenstreit
Dr. Alois Hoeger
Enric Holzbacher
Dr. Stefan Huchler
Dr. Hans-Georg Hundeck

Dr. Jochen Jacobs
Dr. Joachim Jäckle
Theo Janschuk

John Kahl
Patrick Kaminski
Peter Kardorff
Dr. Klaus Kirchmayr
Dr. Wolfgang Klauck
Carsten Knobel
John Knudson
Nurierdem Kocak
Dr. Harald Köster
Peter Kohl
Gerald Kohlsmith
Norbert Koll
Dr. Werner Krieger
Thomas-Gerd Kühn
Dr. Marcus Kuhnert

Luis Carlos Lacorte
Christopher Littlefield
Peter Longo

Sammy Loutfy
Oliver Luckenbach

Dr. Carlo Mackrodt
Dr. Klaus Marten
Lutz Mehlhorn
Joris Merckx
David Minshaw
Dr. Clemens Mittelviefhaus
Eric Moley
Juan Morcego
Georg Müller
Dr. Heinrich Müller
Tina Müller
Rolf Münch
Julio Munoz-Kampff
Liam Murphy

Christoph Neufeldt
Helmut Nuhn

Michael Ogrinz
Carlos Eduardo Orozco

Campbell Peacock
Norbert Pestka
Bruno Piacenza
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Dr. Hans-Willi Schroiff
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Dr. Johann Seif
Brian Shook
Dr. Simone Siebeke
Andrew Smith
Bart Steenken
Dr. Walter Sterzel

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Richard Theiler
Günter Thumser
John Tierney
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Greg Tipsord
Thomas Tönnesmann
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Dr. Dirk Vollmerhaus

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Bernd Wasserrab
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Gabriele Weiler
Andreas Welsch
Thomas Wetherell
Klaus-Dieter Weyers
Dr. Jürgen Wichelhaus
Dr. Winfried Wichelhaus
Dr. Hans-Christof Wilk
Dr. Rudolf Wittgen

At January 1, 2006

Financial Highlights by Quarter

in million euros

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	restated 2004	**2005**	restated 2004	**2005**	restated 2004	**2005**	restated 2004	**2005**
Sales								
Laundry & Home Care	750	**957**	938	**1,012**	970	**1,086**	959	**1,033**
Cosmetics/Toiletries	503	**594**	661	**684**	649	**681**	664	**670**
Consumer and Craftsmen Adhesives	343	**371**	365	**427**	395	**481**	343	**463**
Henkel Technologies	681	**758**	728	**825**	695	**832**	687	**851**
Corporate	66	**57**	64	**61**	63	**60**	68	**71**
Henkel Group	**2,343**	**2,737**	**2,756**	**3,009**	**2,772**	**3,140**	**2,721**	**3,088**
EBIT								
Laundry & Home Care	70	**107**	88	**103**	94	**109**	98	**114**
Cosmetics/Toiletries	51	**68**	82	**84**	69	**80**	88	**89**
Consumer and Craftsmen Adhesives	41	**41**	41	**46**	50	**54**	37	**44**
Henkel Technologies	71	**78**	85	**92**	69	**86**	73	**89**
Corporate	–28	**–29**	–34	**–29**	–30	**–29**	–19	**–35**
Henkel Group	**205**	**265**	**262**	**296**	**252**	**300**	**277**	**301**
Earnings before tax	**216**	**226**	**269**	**271**	**250**	**267**	**272**	**278**
Net earnings for the quarter	**159**	**168**	**199**	**201**	**185**	**199**	**205**	**202**
Earnings per preferred share in euros	**1.10**	**1.16**	**1.37**	**1.38**	**1.27**	**1.36**	**1.50**	**1.41**

Ten-Year Summary

in million euros	1996	1997	1998	1999	2000	2001	2002	2003	2004	2004[20]	2005
Sales	8,335	10,259	10,909	11,361	12,779	9,410[7]	9,656	9,436	10,592	10,592	**11,974**
Operating profit (EBIT)	517	702	791	857	950	602[7]	666	706	800[19]	996	**1,162**
Earnings before tax	454	1,001	644	692	816	734[9]	664	768	808[19]	1,007	**1,042**
Net earnings	284	320[4]	372	404	505	476[8]	431	530[13]	551[19]	748	**770**
Earnings after minority interests	248	287	336	364	468	437[9]	435	519[14]	550[19]	747	**757**
Earnings per preferred share (EPS)	1.74	3.76[5]	2.33	2.53	3.25	3.50[10]	3.06	3.65[15]	3.88[19]	5.24	**5.31**
Total assets	7,311	8,905	9,130	9,856	11,382	9,365	8,513	9,362	13,138	13,287	**13,944**
Non-current assets	4,012	5,040	5,164	5,504	6,295	5,490	4,927	4,723	7,400	7,989	**9,065**
Current assets (including deferred tax assets)	3,299	3,865	3,966	4,352	5,087	3,875	3,586	4,639	5,738	5,248	**4,879**
Debt	4,786	6,061	6,301	6,618	7,882	5,761	5,150	5,976	8,937	8,941	**8,545**
Shareholders' equity[1]	2,525	2,844	2,829	3,238	3,500	3,604	3,363	3,386	4,201	4,346	**5,399**
as % of total assets	34.5	31.9	31.0	32.9	30.8	38.5	39.5	36.2	32.0	32.7	**38.7**
Net return on sales (%)[2]	3.4	5.6	3.4	3.6	4.0	3.6[12]	4.5	5.6[16]	5.12[9]	7.06	**6.43**
Return on equity (%)[3]	12.5	13.1[6]	13.1	14.3	15.6	13.6[9]	12.0	15.8[17]	16.1[19]	17.2	**17.7**
Dividend per ordinary share in euros	0.61	0.69	0.79	0.87	1.06	1.06	1.06	1.14	1.24	1.24	**1.30[11]**
Dividend per preferred share in euros	0.66	0.74	0.84	0.93	1.12	1.12	1.12	1.20	1.30	1.30	**1.36[11]**
Total dividends	93	104	119	131	157	156	156	167	185	185	**193[11]**
Capital expenditures (including financial assets)	833	2,127	979	746	1,359	664[7]	484	580[18]	4,628	4,678	**1,119**
Investment ratio as % of sales	10.0	20.7	9.0	6.6	10.6	5.3	5.1	6.1	43.7	43.7	**9.3**
Research and development costs	197	238	250	279	320	255[7]	259	257	272	272	**324**
Number of employees (annual average)											
Germany	15,473	15,138	15,257	15,065	15,408	11,121[7]	10,944	10,767	10,488	10,488	**10,264**
Abroad	30,904	38,615	41,034	41,555	45,067	36,241[7]	36,259	37,561	39,459	39,459	**41,460**
Total	**46,377**	**53,753**	**56,291**	**56,620**	**60,475**	**47,362[7]**	**47,203**	**48,328**	**49,947**	**49,947**	**51,724**

[1] including participating certificates and participating loans up to 1996 [2] net earnings ÷ sales [3] net earnings ÷ average equity (from 1997 equity at beginning of year) [4] 576 million euros including gain from sale of GFC shareholding (Degussa) [5] excluding gain from sale of GFC shareholding, preferred share: 1.99 euros [6] excluding gain from sale of GFC shareholding (Degussa) [7] continuing businesses [8] 541 million euros including net gain from exceptional items [9] before exceptional items [10] after the sale of Cognis and Henkel-Ecolab: 3.05 euros [11] proposed [12] net earnings ÷ sales of 13,060 million euros [13] net earnings excluding Clorox share buy-back: 500 million euros [14] earnings after minority interests excluding Clorox share buy-back: 489 million euros [15] before exceptional items in 2003 – sale of participation in Wella, Extended Restructuring measures and Clorox share buy-back: 3.47 euros [16] net return on sales excluding Clorox share buy-back: 5.3 percent [17] return on equity excluding Clorox share buy-back: 14.9 percent [18] excluding Wella proceeds of 280 million euros [19] before exceptional items [20] restated and comparable

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Responsible Care

Calendar

Annual General Meeting of Henkel KGaA 2006:
Monday, April 10, 2006

Publication of Report
for the First Quarter 2006:
Wednesday, May 3, 2006

Publication of Report
for the Second Quarter 2006:
Wednesday, August 2, 2006

Publication of Report
for the Third Quarter 2006:
Wednesday, November 8, 2006

Fall Press and Analysts' Conference 2006:
Wednesday, November 8, 2006

Press Conference for Fiscal 2006
and Analysts' Conference 2007:
Tuesday, February 27, 2007

Annual General Meeting of Henkel KGaA 2007:
Monday, April 16, 2007

Up-to-date facts and figures on Henkel also available on the Internet: www.henkel.com

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