

Annual Report 2006

A World of Brands



Henkel

Quality from

Henkel

*A Brand like a friend*

# Henkel Group: Financial Highlights

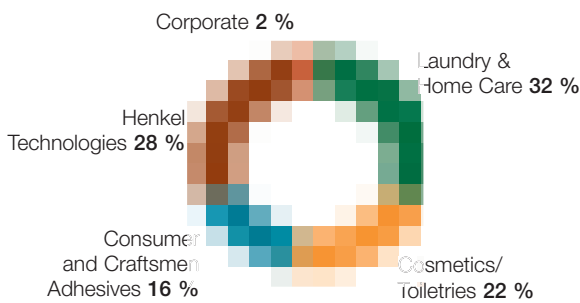
in million euros

	2005	2006	+/-	
Sales	11,974	12,740	6.4 %	
Operating profit (EBIT)	1,162	1,298	11.7 %	
Return on sales (EBIT)	in %	9.7	10.2	0.5 pp
Net earnings	770	871	13.1 %	
Earnings after minority interests	757	855	12.9 %	
Earnings per preferred share	in euros	5.31	5.98	12.6 %
Return on capital employed (ROCE)	in %	13.3	14.5	1.2 pp
Capital expenditures on property, plant and equipment	393	431	9.7 %	
Research and development costs	324	340	4.9 %	
Employees (annual average)	number	51,724	51,716	-
Dividend per ordinary share	in euros	1.30	1.44 <sup>1)</sup>	10.8 %
Dividend per preferred share	in euros	1.36	1.50 <sup>1)</sup>	10.3 %

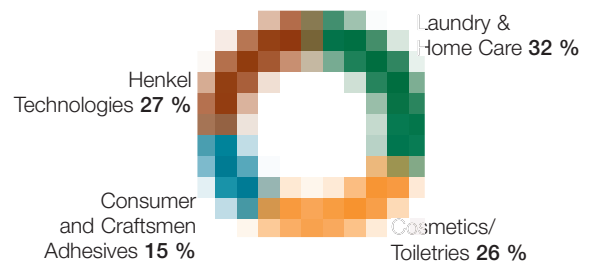
<sup>1)</sup> proposed

pp = percentage points

## 2006 sales by business sector

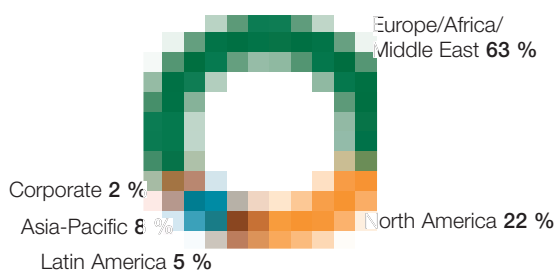


## 2006 EBIT by business sector<sup>1)</sup>

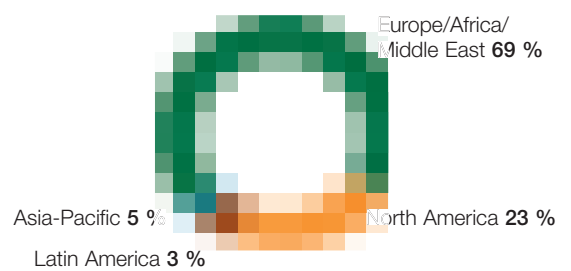


<sup>1)</sup> excluding Corporate

## 2006 sales by region



## 2006 EBIT by region<sup>1)</sup>



<sup>1)</sup> 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

	2005	2006
Sales	4,088	4,117
Operating profit (EBIT)	433	449
Return on sales (EBIT) in %	10.6	10.9
Return on capital employed (ROCE) in %	13.6	15.2

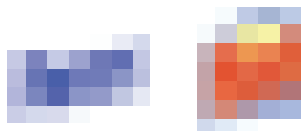
### Highlights 2006

**New Products** Persil with a touch of Vernel, Purex Renuzit, Der General Universal Spray, Pril Funny Man, Bio Presto Sensitive, WC Frisch Wild Kayak, Soft Scrub Cream Cleaners, Perwoll Relaunch, Vernel Aromatherapy

**+4.6 %**

organic sales growth

**Persil**



## Cosmetics/Toiletries

Leading positions worldwide

Achieving profitable growth with attractive product innovations aligned to exacting consumer demands

Expanding our strong position in Europe and North America and selectively extending our presence in the growth regions

### Key financials in million euros

	2005	2006
Sales	2,629	2,864
Operating profit (EBIT)	321	359
Return on sales (EBIT) in %	12.2	12.5
Return on capital employed (ROCE) in %	14.7	15.4

### Highlights 2006

**New Products** Igora Royal, Brilliance Luminance, Diadem Rootset, Natural & Easy, Gliss Total Repair 19, Schauma Nutri & Shine, Taft Titane, Fa Asia Spa, Dial for Men, Theramed 2in1 3D Clean, Diadermine Lift+ Resculpt

**+4.1 %**

organic sales growth

Schwarzkopf



## Consumer and Craftsmen Adhesives

Leading our markets worldwide

Driving growth through innovation and acquisitions

Moving to further strengthen our positions, particularly outside Western Europe

### Key financials in million euros

	2005	2006
Sales	1,742	1,977
Operating profit (EBIT)	185	209
Return on sales (EBIT) in %	10.6	10.6
Return on capital employed (ROCE) in %	15.6	16.9

### Highlights 2006

**New Products** Ceresit CM90 Easy Flex PLUS Tile Adhesive, Pattex PL 700 Assembly Adhesives (FLEXTEC), Pritt Pen Roller, Loctite Super Glue Brush-on, Ceresit F158 Special Glazing Sealant for Self-cleaning Glass, Thomsit XXL Floor Leveling Compound, Pattex No More Nails Assembly Adhesive Tape

**+ 7.8 %**

organic sales growth



## Henkel Technologies

Leading our markets worldwide

Creating added value for customers by offering integrated and tailor-made solutions from an extensive portfolio

Developing new applications and growth potential in all regions of the world

### Key financials in million euros

	2005	2006
Sales	3,266	3,533
Operating profit (EBIT)	345	370
Return on sales (EBIT) in %	10.6	10.5
Return on capital employed (ROCE) in %	14.7	15.4

### Highlights 2006

**New Products** Terostat Direct Glazing Adhesives, Loctite 3876, P3-Neutracare 3000 series, Liofol Smart Cure PUR Adhesive, Macromelt 6800 series, Sanicare HM 4450

**+ 8.9 %**

organic sales growth



**Quality from Henkel.** Our vision is to be a leader with brands and technologies that make people's lives easier, better and more beautiful. We research the markets and analyze the needs of our customers and consumers in order to utilize our insights in the development of new, high-quality products and superior technologies. Innovation is the basis for success – in our **World of Brands.**

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# Dear Friends of the Company,

We are delighted to provide you in this Annual Report with the details of another successful year for Henkel. We again succeeded in generating profitable growth while also substantially expanding our market positions.

Within a heterogeneous economic environment, our efforts on the innovation front have led to a significant increase in organic sales, and our restructuring programs have enhanced our competitiveness on the cost side.

Two primary factors had a significant influence on our markets in the year under review: first economic revival, and second further raw material price increases accompanied by a fluctuating dollar exchange rate. Against this background, we invite you to consider the facts and figures characterizing Henkel's performance in fiscal 2006:

- >> We increased sales by 6.4 percent to 12,740 million euros
- >> In achieving organic sales growth of 6.0 percent, we exceeded the already good growth rate of the previous year
- >> We improved operating profit (EBIT) by 11.7 percent to 1,298 million euros
- >> We were able to raise return on capital employed (ROCE) by 1.2 percentage points to 14.5 percent
- >> We increased earnings per preferred share from 5.31 euros to 5.98 euros, a plus of 12.6 percent
- >> The Management Board, the Shareholders' Committee and the Supervisory Board will propose to the 2007 Annual General Meeting that it approve a dividend payout of 1.50 euros per preferred share and 1.44 euros per ordinary share

These achievements are a reflection of our clearly stated vision, namely to make people's lives easier, better and more beautiful with brands and technologies, while assuming leading positions in our markets. The favorable business performance generated is also mirrored in the increase in the Henkel share price.



Dipl.-Ing. Albrecht Woeste

Prof. Dr. Ulrich Lehner

We attribute our success to the abilities and commitment of our employees. We thank all our employees for their contribution to the achievements made in fiscal 2006. We will continue investing in their training and have every confidence in their high motivation, engagement, flexibility, skills and talents going forward. As this, our 130th year of corporate history has once again shown, it is our people who, through their ability to manage change, determine our future.

During the past financial year, we intensified our efforts in the growth markets of Eastern Europe, the Middle East, Africa, Asia-Pacific and Latin America. This brought significant success with the reward of double-digit sales growth. As a result, the regions mentioned were able to increase their aggregate sales contribution in excess of the 30-percent mark for fiscal 2006. Eastern Europe and Asia-Pacific, particularly China – our new regional center is due to open in Shanghai in July – and India, will also be the focus of our growth strategy as we look forward.

Our future ability to respond in an appropriate, pro-active manner to this constantly changing world will be a key factor in the achievement of further expansion in our market positions. Innovations in our brands and processes will provide the essential platform for our continued market success. We have already achieved critical momentum in this respect by making 2006 our Year of Innovation, and we intend to continue in the same vein through 2007.

At Henkel, we are particularly committed to the principle of sustainability and are well aware of our obligations to society. In our Code of Conduct, we oblige all our employees to uphold the standards and principles that govern our business activities. Our response to infringements and violations of this Code is one of strict intolerance. Not only do we take corporate citizenship very seriously, we also ensure that our social commitment is clearly evident wherever this is expected of us as a corporation. This is very much in our own interest, as our relationships with people, and especially our customers, and their positive attitudes with respect to Henkel, serve to permanently underpin our economic success. Nowadays it is in no way sufficient to limit social responsibility to ecological issues; rather, all our business processes have to be sustainable, because only in this way can we secure the long-term interests of our shareholders. We know that we have to operate in a socially responsible manner in order to maintain and enhance the acceptability of the social market economy as an economic system, to promote our corporate reputation and to remain attractive as a company for our current and future employees.



For fiscal 2007, we have once again made it our target to grow stronger than our markets. We expect to achieve organic sales growth of 3 to 4 percent. We expect an increase in operating profit (EBIT) – adjusted for foreign exchange – in excess of organic sales growth. We likewise expect an increase in earnings per preferred share (EPS) in excess of organic sales growth.

Finally, we would like to express our gratitude to our shareholders for their continuing confidence and support, and to our corporate bodies and committees for their advice, guidance and constructive criticism. In particular, we would like to thank our customers around the world for their continued confidence in our Company and their loyalty to our “World of Brands”. As a source of particular pride, it is this that we have placed at the focus of our Annual Report this year.

Sincerely yours,



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



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

Düsseldorf, January 30, 2007

## Dear Shareholders,

Once again, as required by law and the corporation's Articles of Association, we carefully and regularly monitored the Management Board during the course of fiscal 2006, at the same time advising on the strategic development of the corporation and on major business activities undertaken.

We were informed regularly and comprehensively by the Management Board on relevant matters during Supervisory Board meetings, and were given additional written and verbal reports providing early and extensive information on matters of major importance, particularly the business situation, the development of the corporation, 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 corporation as a whole, with further analysis by business sector and 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 corporate policy.

### Meetings

In fiscal 2006, the Supervisory Board met a total of four times. In these meetings, it discussed in detail the reports of the Management Board and consulted with the Management Board on important individual measures and strategic matters.

Aside from monitoring the activities of the Management Board, we were primarily involved in discussions and consultations relating to the strategic alignment of the corporation. One of the main activities under examination was the acquisition of leading Gillette deodorant brands and the associated business. In this connection, we also deliberated in detail on the strategy pursued by the Cosmetics/Toiletries business sector, the special features of this business and its commercial development.

Similarly, we scrutinized in detail the structure, the current challenges and the tasks of the supply chain management system of the Laundry & Home Care business sector. We also held a meeting at our Genthin site in order to discuss these issues. The global management and alignment of the Human Resources division, including questions on recruitment and the further development of employees, constituted another major point of discussion, and the ongoing optimization of our worldwide sourcing processes was likewise given detailed consideration.

The respective product innovations and strategies of the individual business sectors and also questions of research and development were discussed in conjunction with examination of the associated budgets.

### Corporate Governance and Declaration of Compliance

Again in 2006, the Supervisory Board examined the issue of corporate governance. Further details of corporate governance at Henkel KGaA are provided in the Corporate Governance Report (page 20 ff.), which has received our full backing.

In the meeting of February 13, 2007, the Supervisory Board discussed and ratified the new joint Declaration of Compliance of the Management Board, the Shareholders' Committee and the Supervisory Board with respect to the German Corporate Governance Code for 2007. The full wording of the current and also the previous Declarations of Compliance has been posted on the corporation's website.

### Annual and Consolidated Financial Statements and Auditing Matters

The auditors appointed for 2006 by the last Annual General Meeting – KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft (KPMG), Berlin und Frankfurt/Main, Germany – have examined the 2006 annual financial statements of Henkel KGaA and the 2006 consolidated annual

financial statements including the management reports, together with the accounting records from which they were prepared, and have issued them 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 generally accepted German 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 §315a (1) HGB (German Commercial Code).

All the documentation relating to the annual financial statements and the recommendations by the personally liable managing partners for the appropriation of profits, and also the audit reports of KPMG, have been laid before the Supervisory Board. We examined these documents and discussed them at our fiscal report meeting of February 13, 2007. This was held in the presence of the auditors who reported on their main audit findings. As in previous years, we also convened on the preceding day in order to discuss in detail with the auditors, the Chairman of the Management Board and the Chief Finance Officer all the salient aspects of the financial statements and the auditor's reports appearing to us to be of importance.

We concur with the auditor's findings and, having concluded our own examination, see no reason for reservation or objection in respect of the financial statements presented. At our meeting of February 13, 2007, we approved the annual financial statements, the consolidated financial statements and the management reports as prepared by the personally liable managing partners in consultation with the other members of the Management Board, and we also endorsed the

recommendation by the personally liable managing partners for appropriation of the profit of Henkel KGaA. We likewise ratified our proposals for resolution to be presented before the Annual General Meeting.

### **Risk Management**

We received detailed information on the risk management system in place at Henkel with quantification of major individual risks. Our considered opinion is that there is no apparent evidence of any risks that could endanger the continued existence of the corporation as a going concern. In the course of the year-end audit, KPMG also investigated the structure and function of the risk management system and found no cause for reservations. In our own view, too, the risk management system corresponds to the statutory requirements.

### **Membership of the Supervisory Board and Management Board**

Effective the end of the Annual General Meeting on April 10, 2006, Mr. Benedikt-Joachim Freiherr von Herman and Mr. Heinrich Thorbecke resigned their seats as shareholder representatives on the Supervisory Board. Mr. Konstantin von Unger and Mr. Thomas Manchot were elected by the Annual General Meeting to take their place as new members of the Supervisory Board.

There were no personnel changes in the Management Board during 2006.

The Supervisory Board thanks the Management Board and all Henkel employees for their outstanding efforts and commitment in 2006.

Düsseldorf, February 13, 2007

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



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

from left to right

**Dr. Friedrich Stara**

**Executive Vice President Laundry & Home Care,**  
born 1949; with Henkel since 1976.

**Hans Van Bylen**

**Executive Vice President Cosmetics/Toiletries,**  
born 1961; with Henkel since 1984.

**Dr. Lothar Steinebach**

**Executive Vice President Finance,** born 1948;  
with Henkel since 1980.

**Prof. Dr. Ulrich Lehner<sup>1)</sup>**

**Chairman of the Management Board of Henkel  
KGaA,** born 1946; with Henkel since 1981  
including an interim break of three years.

**Kasper Rorsted**

**Executive Vice President Human Resources/  
Purchasing/Information Technologies/  
Infrastructure Services,** born 1962; with Henkel  
since 2005; Vice-Chairman of the Management Board  
since January 1, 2007.

**Alois Linder**

**Executive Vice President Consumer and Craftsmen  
Adhesives,** born 1947; with Henkel since 1979.

**Dr. Jochen Krautter<sup>1)</sup>**

**Executive Vice President Henkel Technologies,**  
born 1942; with Henkel since 1973.

<sup>1)</sup> Personally liable managing partner

# Branding Strategy

Our brands are successful thanks to innovations conceived in close cooperation with customers and users alike. This enables us both to respond quickly to the changing needs of our target groups and to consistently introduce into the market products that are truly capable of satisfying the high quality demands of modern, aware consumers. Underlying this approach is our commitment to support, manage and sustain both strong global brands and strong regional and local brands.

Our leading brands are characterized by

- >> innovation
- >> quality
- >> trust
- >> added value

Henkel's World of Brands is extensively composed of innovations that, again and again, offer surprising solutions to – sometimes longstanding – problems. At the same time, we ensure that our brands continuously live up to the imperative of delivering optimum quality. "Quality from Henkel" is much more than a slogan, it is a perpetual commitment. Tangible, appreciable quality provides consumers with that essential and constant reminder that they really can trust our brands. And while these consistent and superior product experiences deliver key added value to consumers, on the business side the loyalty of our customers is reflected by the rise in our sales and profits.





# Our Top Brands

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## Laundry & Home Care

**Persil**



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

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## Cosmetics/Toiletries

  
Schwarzkopf

**Fa**



IGORA

**schauma**

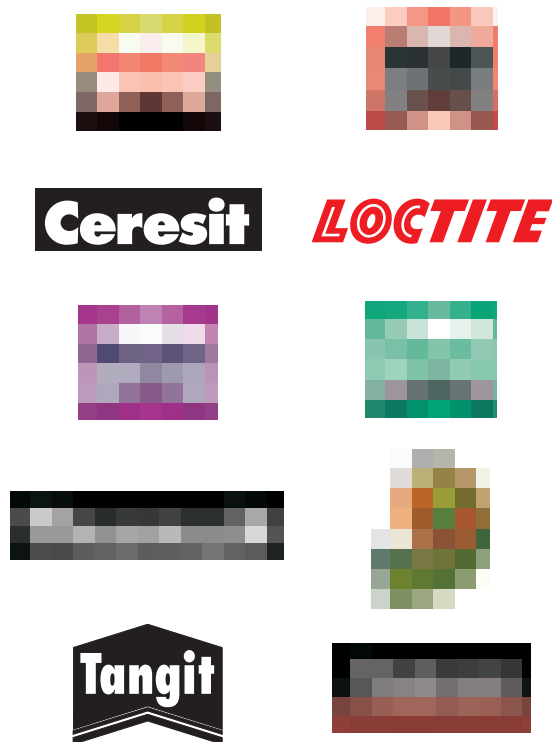
  
**DIADERMINE**

**Theramed**

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

## 2006, 2007, 2008 – Years of Innovation

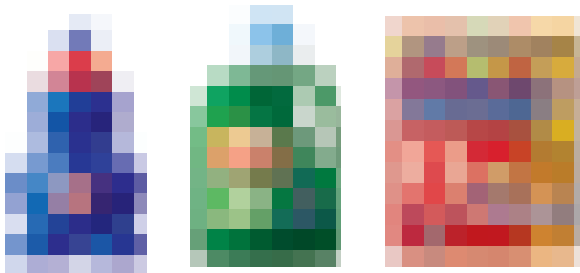
### Year of Innovation 2006

A vibrant innovation culture provides the foundation for corporate success. All our employees are potential donors of ideas capable of taking Henkel forward. In 2006, we initiated a three-year innovation campaign in order to sharpen the awareness of all our people with respect to the importance of innovations. Innovation has become a matter for everybody – not just for specialists in research or marketing but also for every other employee. And now, through the “Henkel Innovation Trophy”, we are also involving external creative minds in the process of generating ideas.

At the core of our initiative is our innovation strategy with two central objectives: first, to achieve above-average growth in our relevant markets. And second, to improve our cost structures and thus our margins through enhanced efficacy and efficiency. We are placing these goals at the center of an innovation philosophy that explicitly extends beyond products and services to processes in sales, the supply chain, purchasing, personnel and finance.

In the 2006 kick-off year for this three-year innovation offensive, we concentrated on making all our employees conscious of the great importance of innovation. Ulrich Lehner, Chairman of the Management Board, appealed to all Henkel’s people to contribute two to three ideas of their own.

### Laundry & Home Care



#### Funny Man

This design innovation comes with proven degreasing power for a gleaming shine.

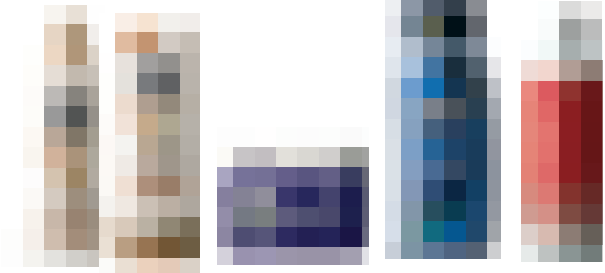
#### Persil with a touch of Vernel

An innovation that combines the cleanliness of Persil with the softness and freshness of Vernel.

#### Somat 7

The first automatic dishwashing detergent to offer seven functions – with an improved cleaning formula and a low-temperature activator.

### Cosmetics/Toiletries



#### Gliss Total Repair 19

The care line with 19 repair actives generating a total repair effect for improved resistance and healthy, shining hair.

#### Taft Titane

The ultimate-strength hair gel for stand-out styles that hold even under the most extreme conditions.

#### Dial for Men

The first Dial body wash series for men, offering ultimate cleanliness without drying skin.

#### Igora Royal

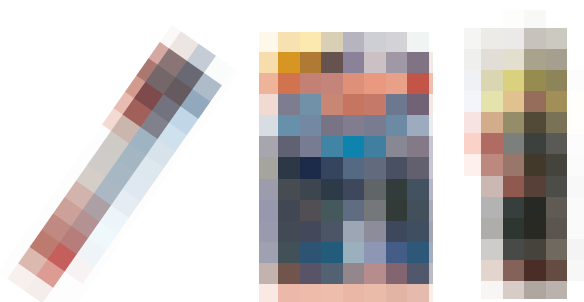
The high-performance formulation for superior color intensity, gray coverage, skin compatibility and application convenience.

### Let's innovate!

By the end of January 2007, the number of new ideas collected through participation of Henkel employees amounted to 67,000. So far, every fifth suggestion passing through the initial selection phase has been recommended by the assessors either for implementation or for further examination, and numerous product ideas are now at the realization stage. In the coming two years, the emphasis will be on further optimizing our innovation management system. Our aim is to be regarded by our customers and the interested public as a leader in innovation. Aware of the need to maintain a balance in

this endeavor, we want to standardize our innovation process as far as possible, but without impairing our ability to accommodate the needs and desires of our customers. In the industrial business, close technical cooperation with customers is the key to successful innovation. In the Laundry & Home Care, Cosmetics/Toiletries and Consumer and Craftsmen Adhesives business sectors, it is particularly our ability to identify the needs of consumers and to convert these insights into products that will govern penetration. So once again, the appeal in 2007 and 2008 will read: "Let's innovate!".

## Consumer and Craftsmen Adhesives



### Pritt Pen Roller

The Pritt product for clean, fast and precise correction; winner of the 2006 iF design award.

### Loctite Super Glue Brush-on

For a uniform coating, clean, fast and easily applied over large surfaces; multi-purpose applicability; bottle with drip guard.

### Pattex PL 700 Assembly Adhesives (FLEXTEC)

Universal assembly adhesive with patented FLEXTEC technology. High initial adhesion and final strength. For indoor and outdoor use; effective even on wet substrates. Also suitable for sealing applications.

## Henkel Technologies



### Terostat Direct Glazing Adhesives

Polyurethane adhesive for direct fixing of windshields in car and truck bodies; significantly reduced curing time.

### Loctite 3876

High-performance adhesive for the electronics industry with improved thermal conductivity for the dissipation of waste heat from electronic components.

### P3-Neutracare 3000 series

Cleaning agent for metal surfaces with improved formulation, for enhanced rust protection without costly additives, easier bath maintenance and longer cleaning agent life.

# Shares and Bonds

## Henkel share reaches all-time high

## Both DAX and sector index outperformed

## International shareholder structure

## Liquidity of Henkel preferred share increased

## Henkel represented in two different bond categories with hybrid and senior bonds

For Henkel shares, 2006 was a year of records. Following an already excellent 2005 with an increase in price of 32.8 percent, the preferred share rose by a further 31.2 percent in 2006 compared to the closing price of the previous year, ending the year at 111.48 euros. As in 2005, the preferred share thus again outperformed

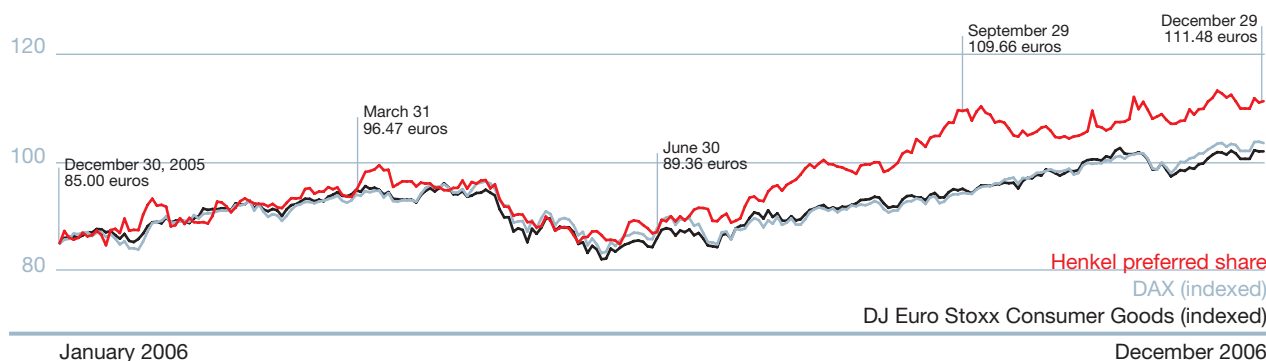
the DAX, the latter increasing by 22.0 percent in the year under review. The price of the Henkel ordinary share increased by 25.0 percent, closing the year at 98.20 euros.

Henkel's shares also significantly outperformed the Dow Jones Euro Stoxx Consumer Goods index, which rose by 20.2 percent compared to the previous year.

Back in March 2006, the price of our preferred share rose above the previous all-time high of 94.84 euros achieved in 1998. It reached its new all-time high on December 15, 2006 with a closing price of 113.45 euros, the acceleration in our organic sales growth combined with improved profitability having been very positively received by the investment community.

As the price of Henkel's preferred shares increased, so did their trading volumes, which averaged 401,000 preferred shares per trading day (2005: 383,000). The average for our ordinary shares was 47,200 per trading day, 2,800 fewer than in the previous year. The market

Performance of Henkel preferred share versus market in 2006 in euros



Performance of Henkel preferred share versus market 1997 – 2006 in euros



capitalization of our ordinary and preferred shares increased from 11.8 billion euros to 15.1 billion euros.

This means that, in the course of 2006, we again succeeded in achieving one of our most important corporate objectives, namely to continue increasing the value of the Company over the long term to the benefit of our investors.

Shareholders who invested 1,000 euros when Henkel's preferred shares were issued in 1985, and then re-invested the dividends received (excluding taxes) in the stock, would have had a portfolio value of about 10,600 euros by the end of 2006. This corresponds to a value increase of 960 percent or an average annual yield of 11.8 percent. Over the same period, DAX tracking would have provided an annual yield of 8.6 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 outstanding ADR certificates for ordinary and preferred shares as of year-end amounted to around 1.9 million.

The international significance of Henkel preferred shares is also indicated by their inclusion in major international indexes. These indexes are important indicators for the capital markets and benchmarks for fund managers.

Henkel as a DAX stock counts among the 30 most important listed corporations in Germany. At the end of 2006, the market capitalization of the DAX-relevant preferred shares was 6.6 billion euros, placing Henkel at number 27 in the DAX rankings with a weighting of 0.96 percent. In addition, the Henkel preferred share is included in the international indexes MSCI Europe, Dow Jones Stoxx 600 and FTSE World Europe, and also

#### Key data on Henkel shares 2002 – 2006 in euros

	2002	2003	2004	2005	2006
<b>Earnings per share in accordance with IFRS<sup>1)</sup></b>					
Ordinary share	3.97	4.28	5.18	5.25	5.92
Preferred share	4.03	4.34	5.24	5.31	5.98
<b>Share price at year-end<sup>2)</sup></b>					
Ordinary share	52.25	58.29	60.89	78.54	98.20
Preferred share	60.55	62.00	64.00	85.00	111.48
<b>High for the year<sup>2)</sup></b>					
Ordinary share	69.69	60.90	68.00	78.54	99.43
Preferred share	77.20	64.35	73.58	85.10	113.45
<b>Low for the year<sup>2)</sup></b>					
Ordinary share	50.60	43.88	52.51	60.95	76.97
Preferred share	59.18	49.56	56.00	64.38	84.63
<b>Dividends</b>					
Ordinary share	1.06	1.14	1.24	1.30	1.44 <sup>3)</sup>
Preferred share	1.12	1.20	1.30	1.36	1.50 <sup>3)</sup>
<b>Market capitalization<sup>2)</sup></b>					
	in billion euros	<b>8.1</b>	<b>8.7</b>	<b>9.1</b>	<b>11.8</b>
Ordinary share	in billion euros	4.5	5.0	5.3	6.8
Preferred share	in billion euros	3.6	3.7	3.8	5.0

<sup>1)</sup> comparable; 2004 restated and comparable <sup>2)</sup> Xetra closing prices <sup>3)</sup> proposed

in the ethical indexes Dow Jones Stoxx Sustainability and FTSE4Good.

#### 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 shareholder base reflects both the increasing international alignment of our operating businesses and the growing interest of international investors in our stock. Our preferred shares – the more liquid class – are widely owned internationally, the largest investor grouping being in the USA followed by Germany and the UK.

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, 2006, treasury stock amounted to 1.8 million preferred shares.

#### Employee shares in high demand

Since 2001, Henkel has been operating a share ownership plan for all employees worldwide, known as the Employee Share Program or ESP. For each euro invested by an employee (limited to a maximum of 4 percent of salary up to a maximum of 4,000 euros per year), Henkel added an additional 33 cents in 2006. The number of participants in this plan increased in the year under review, with 14,800 employees in around 50 different countries having bought Henkel shares through this plan. As of December 31, 2006, employees held a total of 1.1 million shares within the ESP, representing

around 1.9 percent of total preferred shares outstanding. The vesting period for newly acquired shares is three years.

#### Henkel bonds

Henkel is represented in the international bond markets by two bonds with a total volume of 2.3 billion euros.

In May 2003, Henkel KGaA issued a senior bond for 1.0 billion euros. This is also described as a benchmark bond because, due to its large volume and its liquidity, it provides a good yardstick for the market's assessment of Henkel's creditworthiness.

In November 2005, Henkel issued a subordinate hybrid bond in the amount of 1.3 billion euros for the purpose of financing a major portion of the Company's pension obligations in Germany. The proceeds of the bond were allocated to a special-purpose CTA (Contractual Trust Arrangement).

Further detailed information regarding these bonds, the current developments of their respective prices and the associated risk premium (credit margin) can be found on the internet ([www.henkel.com/ir](http://www.henkel.com/ir)) in the "Bonds" section.

#### Bond data

	Senior Bond	Hybrid Bond
Volume	1.0 bn euros	1.3 bn euros
Nominal Coupon	4.25 %	5.375 %
Coupon Payment Date	June 10	November 25
Maturity	June 10, 2013	Nov. 25, 2104 <sup>1)</sup>
Listing	Frankfurt	Luxembourg
Security Code No.	664196	A0JBUR
ISIN Code	DE0006641962	XS0234434222

<sup>1)</sup> first call option for Henkel on November 25, 2015

### Good credit ratings retained

Our creditworthiness is regularly checked by independent rating agencies.

On January 12, 2006, Moody's raised their outlook for the long-term "A2" rating for Henkel from "negative" to "stable" in response to our good business performance and improved financial ratios. On June 29, 2006, Standard & Poor's likewise improved their assessment of our creditworthiness, increasing their outlook for the "A-" long-term rating from "stable" to "positive".

Our goal is to maintain our ratings in the "A" range.

#### Credit ratings<sup>1)</sup>

	Standard & Poor's	Moody's
Long-term (outlook)	A- (positive)	A2 (stable)
Short-term (outlook)	A-2	P-1 (stable)

<sup>1)</sup> at December 31, 2006

### Committed to capital market communication

Henkel places great importance on meaningful dialog with both investors and financial analysts. During 28 capital market conferences and roadshows held in Europe and North America, institutional investors and financial analysts were afforded the possibility of talking directly to our top management. In addition, there were numerous telephone conferences and one-on-one meetings – amounting to more than 500 events in all.

Moreover, we provided investors and analysts with specific insights into our operating business sectors. At the Analyst and Investor Meeting in Düsseldorf, we

presented the Laundry & Home Care business sector. At the "Henkel Technologies Day" in London, the focus was on our business sector of that name; and at the meeting in St. Petersburg, we showcased the Consumer and Craftsmen Adhesives business sector with presentations and tours of local DIY stores.

Private investors are able to obtain all relevant information through telephone inquiry or the constantly updated Investor Relations website available at [www.henkel.com/ir](http://www.henkel.com/ir). This also serves as the medium for the live broadcast of telephone and analyst conferences, plus the Annual General Meeting, whereby the latter also offers the possibility of obtaining extensive information from Henkel's management.

The quality with which capital market communications are conducted is evaluated by independent rankings. Our Investor Relations team received a number of awards in 2006. For example, in the Investor Relations Awards conferred by Germany's "Capital" magazine, Henkel took top position among the DAX companies, following its runner-up place in 2005.

You will find a **Financial Calendar** with all our important dates on the inside back cover of this Annual Report.

### Henkel shares and bonds monitored by numerous financial analysts

Henkel is tracked by a number of financial analysts – primarily in Germany, the UK and the USA. Over 40 analysts regularly publish studies and commentaries on current developments at the Company, and issue their recommendations accordingly.



# Corporate Governance

**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 has committed to the above maxims. Corporate Governance in the sense of responsible, transparent management and control of the Company aligned to the long-term increase in shareholder value has long been an essential component of our corporate culture, and will remain so into the future.

## I. Corporate Governance Report<sup>1)</sup>

The Corporate Governance Report describes the principles of the management and control structure and also the main rights of shareholders of Henkel KGaA; in addition, it explains the special features that arise from our specific legal form and Articles of Association (corporation byelaws) as compared to a stock corporation. It takes into account the recommendations of the German Corporate Governance Code and contains all the information required by the provisions of the HGB (German Commercial Code) as amended by the German Takeover Directive Implementation Act.

### Legal form

Henkel is a “Kommanditgesellschaft auf Aktien” (KGaA), i.e. a partnership limited by shares and incorporated under German law. A KGaA is a company with its own legal personality (i.e. it is a legal person) and with at least one partner who has unlimited liability with respect to the company’s creditors (personally liable partner). The other (limited) partners participate in the capital stock, which is split into shares. Beyond these contributions, they are not personally liable for the company’s debts. Hence, a KGaA is a hybrid of a stock corporation and a limited commercial partnership. It is predominantly governed by the German Stock Corporation Act (AktG).

### Division of the capital stock, shareholder rights

The capital stock of the Company amounts to 373,724,800 euros. It is divided into a total of 145,986,250 bearer shares of no par value (share certificates), of which 86,598,625 are ordinary shares (proportion of capital stock: 221,692,480 euros or 59.3 percent) and 59,387,625 preferred shares (proportion of capital stock: 152,032,320 euros or 40.7 percent).

Each ordinary share grants to its bearer one vote. The preferred shares accord to their bearers all shareholder rights apart from the right to vote. Unless otherwise resolved in General Meeting, the unappropriated profit is distributed as follows: first, the holders of preferred shares receive a preferred dividend in the amount of 0.11 euros per preferred share. The holders of ordinary shares then receive a dividend of 0.05 euros per ordinary share, with the residual amount being distributed to the holders of ordinary and preferred shares in accordance with the proportion of the capital stock attributable to them (Article 35 of the Articles of Association). Cancellation or limitation of this preferred dividend requires the consent of the holders of preferred shares. If the preferred dividend is not paid out either in part or in whole in a year, and the arrears are not paid off in the following year together with the full preferred share dividend for that second year, the holders of preferred shares are accorded voting rights until such arrears are paid.

The shareholders exercise their rights in the Annual General Meeting as per the relevant statutory provisions and the Articles of Association of Henkel KGaA. In particular, they may vote (as per entitlement), speak on agenda items, ask questions and propose motions.

### Approved capital, share buyback

According to Art. 6 (5) of the Articles of Association, there is an authorized capital limit. Acting within this limit, the personally liable partners are authorized, subject to the approval of the Supervisory Board and of the Shareholders’ Committee, to increase the capital stock of the Company in one or several acts until April 9, 2011, by up to a total of 25,600,000 euros through the issue for cash of new preferred shares with no voting rights.

<sup>1)</sup> part of the Group Management Report



In addition, the personally liable partners are authorized to purchase ordinary and/or preferred shares of the Company at any time up to October 9, 2007, subject to the condition that the shares acquired on the basis of such authorization, together with the other shares that the Company has already acquired and holds as treasury stock, shall not at any time exceed 10 percent in total of the capital stock.

### Major shareholders

According to notifications received on July 8, 2004, a total of 51.48 percent of the voting rights are held by parties to the Henkel family's share-pooling agreement. This agreement was concluded between members of the families of the descendants of Company founder Fritz Henkel; it contains restrictions with regard to transfers of the ordinary shares covered (Art. 7 of the Articles of Association: "Stock Transfer Restrictions Agreement"). In addition, Jahr Vermögensverwaltung GmbH & Co. KG, Hamburg, Germany, which holds more than 5 percent of the total voting rights, has undertaken, per an agreement concluded with parties to the Henkel share-pooling agreement, to exercise its voting rights at the Annual General Meeting of Henkel KGaA in concert with those parties whenever the latter have decided to cast all their votes in the same way.

### Management Board/Supervisory Board/ Shareholders' Committee

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, and is headed by a Chairman.

In accordance with Germany's Codetermination Act of 1976, Henkel also has a Supervisory Board with 16 members made up of an equal number of shareholder and employee representatives. Its purpose is to regularly advise and to monitor the Management Board in its stewardship of the Company.

According to the Articles of Association, in addition to the statutory Supervisory Board, Henkel also has a standing Shareholders' Committee which, in lieu of

the General Meeting, engages in the management of the Company, appoints and dismisses personally liable partners, appoints and dismisses the Chairman of the Management Board and the other members of the Management Board, and regulates their legal relationships (§ 278 (2) AktG in conjunction with § 114 and § 161 HGB and Art. 8, 11 and 26 of the Articles of Association).

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

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

### Annual General Meeting

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

Unless otherwise required by mandatory provisions of statute or the Articles of Association, the resolutions of the Annual General Meeting are adopted by simple majority and, inasmuch as a majority of shares is required by statute, by simple majority of the voting stock represented (Art. 24 of the Articles of Association). This also applies to changes in the Articles of Association; however, modifications to the Object

of the Company require a three-quarters' majority (§ 179 (2) AktG).

## II. Application of the German Corporate Governance Code

Notwithstanding the special features arising from its legal form and Articles of Association, Henkel KGaA complies with the main recommendations ("shall" provisions) of the German Corporate Governance Code, with one exception: 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, their individual shareholdings are not disclosed unless required by priority statutory obligations. The Code requires disclosure of shareholdings in excess of 1 percent.

In addition, Henkel complies with all the suggestions ("may/should" provisions) of the Code. The corresponding Declarations of Compliance can be found on our website at [www.henkel.com/ir](http://www.henkel.com/ir).

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 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 per § 15a WpHG (Securities Trading Act, "Directors' Dealings"), in fiscal 2006 members of the Management Board purchased 1,000 preferred shares and sold 3,600 preferred shares; members of the Supervisory Board/Shareholders' Committee purchased 854 ordinary shares and 361 preferred shares. Persons closely related to members of the Management Board, the Supervisory Board or the Shareholders' Committee sold 5,000 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.henkel.com/ir](http://www.henkel.com/ir).

## III. Remuneration Report<sup>1)</sup>

The Remuneration Report provides an outline of the compensation system for the Management Board, the Supervisory Board and the Shareholders' Committee of Henkel KGaA, and also indicates the level and structure of the remunerations paid.

The Remuneration Report takes into account the recommendations of the German Corporate Governance Code. It contains the information required according to the provisions of the HGB (German Commercial Code) as amended by the Disclosure of Management Remuneration Act; this information has therefore not been repeated in the Notes to the Consolidated Financial Statements.

### 1. 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

In accordance with the objective of achieving a continuous and sustainable increase in shareholder value, the remuneration of the Management Board is characterized by a high proportion of performance-related compensation. The package comprises three components: a fixed salary, a variable performance-related short-term cash payment (short-term incentive/STI) and a variable performance-related long-term incentive (LTI) in the form of a share-based payment. In addition, the members of the Management Board have been assigned certain pension entitlements that are subject to a process of escalation. The components in detail:

#### Fixed salary

The amount of fixed salary is determined on the basis of the functions and responsibilities of the recipients

<sup>1)</sup> part of the Group Management Report

concerned, their time of tenure as members of the Management Board, and prevailing market conditions.

#### **Other emoluments**

The other emoluments largely relate to benefits arising out of standard insurance policies 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). The individual performance of the Management Board member concerned, and the size, significance and development of the business/management sector(s) involved are also taken into account. Payment is made in arrears on an annual basis as a function of the performance achieved in the immediately preceding financial year.

#### **Long-term incentive**

Each member of the Management Board is allocated, as a function of the absolute increase in the price of the Henkel preferred share and the increase in the earnings per Henkel preferred share (EPS) achieved over a period of three years (performance period), the cash equivalent of up to 3,600 shares – so-called cash performance units – per financial year (= tranche). On expiry of the performance period, the number and the value of the shares are determined and the resulting tranche income is paid in cash. Each member of the Management Board participating in the tranche is required to acquire a personal stake by investing in Henkel preferred shares to the value of 25 percent of the gross tranche payout, and to place these shares in a blocked custody account with a five-year drawing restriction.

In the event of an absolute rise in the share price during the performance period of at least 15 percent, 21 percent or 30 percent, each participant is allocated the monetary value of 600, 1,200 or 1,800 shares respectively. To calculate the price increase, the average price in January of the tranche issue year is compared to the average price in January of the third financial year following the issue year (reference price). If, during

the performance period, earnings per preferred share increase by at least 15 percent, 21 percent or 30 percent, each participant is allocated the monetary value of 600, 1,200 or 1,800 shares respectively. To calculate the increase in EPS, the EPS of the financial year prior to the year of issue is compared to that of the second financial year following the year of issue. Calculation is based on the approved and endorsed consolidated financial statements of the respective financial years as duly audited and provided with an unqualified opinion, whereby EPS is also adjusted for exceptional items. The monetary value per share essentially corresponds to the reference price of the Henkel preferred share. A ceiling value (cap) is imposed in the event of extraordinary share price increases.

#### **Other regulatory provisions**

The contracts of employment of the members of the Management Board do not contain any specific provision for severance pay in the event of premature termination of the employment relationship. In the event of members of the Management Board taking retirement, they are entitled to continued payment of their remuneration for a further six months up to the month of their 65th birthday.

The Company maintains on behalf of members of corporate bodies and employees of Henkel a third-party group insurance policy protecting against consequential loss, which policy also covers members of the Management Board.

#### **Remuneration of the Management Board in 2006**

The total compensation paid to members of the Management Board for the performance of their duties for and on behalf of Henkel KGaA and its subsidiaries during the year under review amounted to 15,431k euros (2005: 14,153k euros). This comprises total cash emoluments paid in respect of 2006 and a long-term incentive (LTI) payable at the end of 2009 as a function of the degree of attainment of the associated performance targets. Of the total 2006 cash emoluments amounting to 13,641k euros (2005: 13,104k euros), 3,948k euros was attributable to fixed salaries (2005: 3,374k euros), 9,423k euros

to the short-term incentive (2005: 9,430k euros) and 271k euros to other emoluments (2005: 300k euros). The value of the LTI (cash performance units) was based on an increase in both parameters (EPS/share price) of 21 percent. This yields an amount of 1,790k euros (2005: 1,049k euros).

The remunerations of the individual members of the Management Board for the year under review are indicated in the table below together with a breakdown according to the individual components referred to above.

The remunerations of the personally liable managing partners are subject to turnover tax (VAT). As a deductible input tax, this represents no net burden for Henkel KGaA. Therefore, the tax amounts have not been included in the above data.

### Pension benefits

The retirement pension for members joining the Management Board before January 1, 2005 amounts to a certain percentage of the last paid fixed salary (defined benefit). For these Management Board members, the amount payable is set at 60 percent of the final fixed salary in the event of retirement after their 62nd birthday. The actual percentage individually determined for each executive is made up of two components: the so-called base percentage rate derived from the vested

pension entitlement earned prior to entry into the Management Board; and an annual percentage increase of the base percentage during the executive's membership of the Management Board.

Effective January 1, 2005, the pension system for new members of the Management Board was changed to a defined-contribution scheme. Once a covered event occurs, the members of the Management Board receive a superannuation endowment in the form of a lump-sum payment combined with a continuing basic annuity. The superannuation endowment comprises the total of annual contributions calculated on the basis of a certain percentage of the fixed salary and of the short-term incentive, this percentage being the same for all members of the Management Board. Any vested pension rights earned within the corporation prior to the executive's joining the Management Board are taken into account as start-up units. This ensures the establishment of a performance-related pension system.

The pension benefits or additions to pensions in the period under review accruing to the members of the Management Board as of the balance sheet date are shown in the tables below.

A total of 61,177k euros (2005: 62,041k euros) has been provided for pension obligations to former members of the Management Board of Henkel KGaA and the

### Management Board remunerations in k euros

	Cash components			Total cash remunerations	Value of long-term incentives <sup>1)</sup>	Total remunerations <sup>1)</sup>
	Fixed salary	Short-term incentive	Other emoluments			
Prof. Dr. Ulrich Lehner	768.0	2,002.5	49.0	2,819.5	255.7	3,075.2
Dr. Jochen Krautter	546.0	1,305.0	39.3	1,890.3	255.7	2,146.0
Alois Linder	546.0	1,205.0	42.0	1,793.0	255.7	2,048.7
Kasper Rorsted	516.0	1,235.0	46.7	1,797.7	255.7	2,053.4
Dr. Friedrich Stara	516.0	1,235.0	37.3	1,788.3	255.7	2,044.0
Dr. Lothar Steinebach	546.0	1,235.0	27.5	1,808.5	255.7	2,064.2
Hans Van Bylen	510.0	1,205.0	28.7	1,743.7	255.7	1,999.3
<b>2006</b>	<b>3,948.0</b>	<b>9,422.5</b>	<b>270.5</b>	<b>13,641.0</b>	<b>1,789.9</b>	<b>15,430.9</b>
	25.6 %	61.1 %	1.7 %		11.6 %	100.0 %
<b>2005</b>	<b>3,374.0</b>	<b>9,430.0</b>	<b>300.0</b>	<b>13,104.0</b>	<b>1,049.0</b>	<b>14,153.0</b>
	23.9 %	66.6 %	2.1 %		7.4 %	100.0 %

<sup>1)</sup> LTI payout in 2009; these figures will only be attained in the event of EPS/share price increasing by 21 percent in the performance period.

**Management Board pensions** in euros

<b>Defined benefit<sup>1)</sup></b>	<b>Retirement pensions p.a. on onset of pension, as of balance sheet date</b>	<b>Additions to pension provisions for 2006</b>
Prof. Dr. Ulrich Lehner	531,000.00	3,022,972.00
Dr. Jochen Krautter	372,000.00	974,274.00
Alois Linder	333,000.00	1,157,290.00
Dr. Lothar Steinebach	315,000.00	1,243,788.00

<sup>1)</sup> the total amount of additions to pension provisions (defined benefit) is characterized by the one-off effect of actuarial adjustments for standard market changes in fixed salaries implemented during the year under review.

**Management Board pensions** in euros

<b>Defined contribution</b>	<b>Superannuation endowment (lump sum)</b>		<b>Basic annuity</b>	
	<b>Total lump sum</b>	<b>Addition to superannuation endowment for 2006</b>	<b>Total basic annuity (p.a.)</b>	<b>Addition to basic annuity for 2006</b>
Kasper Rorsted	284,670.00	227,970.00	506.28	282.96
Dr. Friedrich Stara	206,010.00	175,770.00	224.18	147.02
Hans Van Bylen	201,554.10	171,090.00	410.47	268.99

former directors of its legal predecessor, or their surviving dependants. Amounts paid during the year under review totaled 5,137k euros (2005: 7,891k euros).

## 2. Remuneration of the Supervisory Board and of the Shareholders' Committee

### Regulation

The remunerations for the Supervisory Board and the Shareholders' Committee have been approved in General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association.

### Structure and amounts

The structure and amount of the remunerations are commensurate with the size of the corporation 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 performance-related long-term 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 in the latter case is due to the fact that, as required by the Articles of Association, the Shareholders' Committee is involved in business management activities.

#### Dividend bonus

Each member of the Supervisory Board and of the Shareholders' Committee further receives an annual bonus of 2,000 euros for every full 0.05 euros by which the preferred dividend paid out for the prior year exceeds 0.75 euros.

#### Long-term incentive

As a long-term incentive, each member of the Supervisory Board and of the Shareholders' Committee receives an additional cash payment each year, the amount of which depends on the increase in earnings per preferred share over a three-year reference period. The EPS of the financial year preceding the payment-related year is compared with the EPS 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. Calculation of



the increase is based on the endorsed and approved consolidated financial statements of the respective financial years as audited and provided with an unqualified opinion, whereby EPS is also adjusted for exceptional items. The total of the dividend bonus and the long-term incentive is, however, limited to 50,000 euros (cap).

#### **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 initial amount; if they are the chairperson of one or more subcommittees, they receive double.

#### **Other regulatory provisions**

The members of the Supervisory Board receive an attendance fee amounting to 500 euros for each meeting in which they participate. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses arising from pursuit of their mandates. The members of the Supervisory Board are also reimbursed the turnover tax (VAT) payable on their total remunerations and reimbursed expenses.

The corporation maintains on behalf of members of corporate bodies and employees of the Henkel corporation a third-party group insurance policy protecting against consequential loss, which policy also covers members of the Supervisory Board and of the Shareholders' Committee.

#### **2006 remunerations**

For the 2006 fiscal year, total remunerations paid to the members of the Supervisory Board (fixed fee, dividend bonus and attendance fee) amounted to 906k euros

plus turnover tax of 131k euros (2005: 801k euros plus turnover tax of 121k euros). Of this figure, 350k euros was for fixed fees, 525k euros for the dividend bonus and 31k euros for attendance fees.

The total remunerations of the members of the Shareholders' Committee (fixed fee and dividend bonus – including the components payable for subcommittee activity) amounted to 1,920k euros (2005: 1,741k euros). Of this figure, 1,200k euros was for fixed fees and 720k euros for the dividend bonus.

The dividend bonus in each case was based on a dividend of 1.50 euros per preferred share.

In addition, the members of the Supervisory Board and of the Shareholders' Committee are entitled to a long-term incentive (LTI) for 2006 in the form of a deferred conditional payment entitlement which will be paid out following the 2009 Annual General Meeting as a function of the earnings per preferred share achieved in fiscal 2008. According to our Articles of Association, the total of dividend bonus and LTI is limited to a ceiling of 50k euros per individual member. Given this upper maximum, and assuming an increase in EPS of 21 percent, the totals applicable are 257k euros for the Supervisory Board and 353k euros for the Shareholders' Committee (including remuneration components for subcommittee activity).

The total remunerations of the members of the Supervisory Board (fixed fee, dividend bonus, LTI 2006 and attendance fees) for the year under review amounted to 1,163k euros plus turnover tax (2005: 1,256k euros plus turnover tax).

The total remunerations of the Shareholders' Committee (fixed fee, dividend bonus and LTI 2006, including remuneration components payable for subcommittee activity) for the year under review amounted to 2,273k euros (2005: 2,350k euros).

The remunerations of the individual members of the Supervisory Board and of the Shareholders' Committee, broken down according to the above-mentioned components, are indicated in the following tables:

**Remunerations** in euros

	Cash components			Total cash remunerations	Value of long-term incentives <sup>1)</sup>	Total remunerations <sup>1)</sup>
	Fixed fee	Dividend bonus	Attendance fee			
<b>Supervisory Board</b>						
Dipl.-Ing. Albrecht Woeste, Chairman	40,000	60,000	2,000	102,000	29,400	131,400
Winfried Zander, Vice-Chairman	30,000	45,000	2,000	77,000	22,050	99,050
Dr. Friderike Bagel	20,000	30,000	2,000	52,000	14,700	66,700
Engelbert Bäßler	20,000	30,000	2,000	52,000	14,700	66,700
Hans Dietrichs	20,000	30,000	2,000	52,000	14,700	66,700
Benedikt-Joachim Freiherr von Herman (until April 10, 2006)	5,425	8,137	500	14,062	3,987	18,049
Bernd Hinz	20,000	30,000	2,000	52,000	14,700	66,700
Thomas Manchot (since April 10, 2006)	14,575	21,863	1,500	37,938	10,713	48,651
Prof. Dr. Dr. h.c. mult. Heribert Meffert	20,000	30,000	2,000	52,000	14,700	66,700
Andrea Pichottka	20,000	30,000	2,000	52,000	14,700	66,700
Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber	20,000	30,000	2,000	52,000	14,700	66,700
Heinrich Thorbecke (until April 10, 2006)	5,425	8,137	500	14,062	3,987	18,049
Konstantin von Unger (since April 10, 2006)	14,575	21,863	1,500	37,938	10,713	48,651
Michael Vassiliadis	20,000	30,000	1,500	51,500	14,700	66,200
Bernhard Walter	20,000	30,000	1,500	51,500	14,700	66,200
Werner Wenning	20,000	30,000	2,000	52,000	14,700	66,700
Dr. Anneliese Wilsch-Irrgang	20,000	30,000	2,000	52,000	14,700	66,700
Rolf Zimmermann	20,000	30,000	2,000	52,000	14,700	66,700
<b>2006</b>	<b>350,000</b>	<b>525,000</b>	<b>31,000</b>	<b>906,000</b>	<b>257,250</b>	<b>1,163,250</b>
2005	350,000	420,000	31,000	801,000	455,000	1,256,000

<sup>1)</sup> LTI payout in 2009; these figures will only be attained in the event of EPS increasing by 21 percent in the performance period; amounts disclosed exclude turnover tax.

**Remunerations** in euros

	Cash components			Total cash remunerations	Value of long-term incentives <sup>1)</sup>	Total remunerations <sup>2)</sup>
	Fixed fee	Dividend bonus	Fee for sub-committee activity <sup>3)</sup>			
<b>Shareholders' Committee</b>						
Dipl.-Ing. Albrecht Woeste, Chairman (Chairman Human Resources Subcommittee)	100,000	60,000	160,000	320,000	2 x 29,400	378,800
Stefan Hamelmann, Vice-Chairman (Vice-Chairman Finance Subcommittee)	75,000	45,000	80,000	200,000	22,050 + 14,700	236,750
Dr. h.c. Christoph Henkel, Vice-Chairman (Chairman Finance Subcommittee)	75,000	45,000	160,000	280,000	22,050 + 29,400	331,450
Dr. Paul Achleitner (Member Finance Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
Dr. Simone Bagel-Trah (Member Human Resources Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
Dr. h.c. Ulrich Hartmann (Member Human Resources Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
Burkhard Schmidt (Member Finance Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
Konstantin von Unger (Vice-Chairman Human Resources Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
Karel Vuursteen (Member Human Resources Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
Dr. Hans-Dietrich Winkhaus (Member Finance Subcommittee)	50,000	30,000	80,000	160,000	2 x 14,700	189,400
<b>2006</b>	<b>600,000</b>	<b>360,000</b>	<b>960,000</b>	<b>1,920,000</b>	<b>352,800</b>	<b>2,272,800</b>
2005 <sup>4)</sup>	593,709	280,964	866,306	1,740,979	608,756	2,349,735

<sup>1)</sup> including the LTI amount arising from subcommittee activity <sup>2)</sup> LTI payout in 2009; these figures will only be attained in the event of EPS increasing by 21 percent in the performance period. <sup>3)</sup> proportional fixed fee and dividend bonus <sup>4)</sup> taking into account the changes implemented in 2005

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# Group Management Report for Fiscal 2006

## Operational Activities

### Overview

Henkel was founded in 1876 and therefore, in 2006, celebrated its 130th anniversary. Today, Henkel 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 capacity, it is responsible for defining the Henkel's corporate objectives and for the management, control and stewardship of corporate-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 Company 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 hair salon business. 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 corporate 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, internal procedural rules and codes of conduct.

### Corporate Governance/Remuneration

Further details of corporate governance at Henkel KGaA and the remunerations of the members of the Management Board, Supervisory Board and Shareholders' Committee are provided in the Corporate Governance Report on page 20 ff. and the Remuneration Report on page 22 ff.

### Strategy and 2008 Financial Targets

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

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

Our four business sectors already boast leading market positions in these three core areas, and we intend to further expand these through not only organic sales growth but also selected acquisitions.

A further important element of our long-term strategy is that of concentrated regional expansion. Without neglecting Western Europe, we intend to grow our presence in the profitable North American market while also fixing a strong focus on the growth markets of Eastern Europe, Africa/Middle East, Asia-Pacific and Latin America. Thanks to the highly dynamic development of these growth markets in the year under review,

the target set for 2008 of increasing their share of sales to at least 30 percent was achieved in 2006, two years ahead of schedule. We intend to remain focused on the dynamics of these markets going forward.

Our strong brands and successful technologies are expected to play a decisive role in the attainment of further growth. We are represented by our brands in both the premium and value-for-money segments. The title of this year's report, "A World of Brands", reflects our balanced mix of international, regional and local brands. We support these through the development of high-quality, innovative products as well as through advertising and other promotional activities. These investments serve to enhance the value of our brands and ensure that they remain attractive in the marketplace.

In 2006, our Year of Innovation, we aligned our product development activities even more closely to the requirements and needs of customers and consumers. And we intend to sustain this sharpened focus on innovation in the coming years. We are developing more and more products together with our customers and consumers. We likewise have cooperation and partnership arrangements with universities and industrial associations as well as participating in venture capital companies. Further, we have made it a priority to constantly improve our innovation processes. The period from product idea to market launch is being steadily shortened through the application of increasingly efficient procedures. This also means that we are continuously improving the deployment of our financial resources. Our aim is to increase the share of sales attributable to new products launched over the previous three years 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 likewise intend to further improve our return on capital employed (ROCE). To achieve these objectives, we will be concentrating even more on products offering high contributions while also targeting further improve-

ments in the operating margins of our growth markets. We further aim to become more efficient along our entire value chain.

Again in 2006, we came a step closer to achieving our 2008 financial targets:

#### Henkel Group: 2008 financial targets

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

#### 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<sup>®</sup>)<sup>1)</sup> as a central performance management parameter, to assess growth to date and to appraise future plans.

EVA<sup>®</sup> is a measure of the additional financial 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, the latter being defined as 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 determining capital employed can be found on page 108.

The cost of capital employed is calculated as a weighted average of the cost of equity and debt (WACC). In fiscal 2006, we applied a WACC after tax of 7 percent. Before tax, the figure was 10 percent. We regularly review our cost of capital in order to reflect changing market conditions such as interest rate levels. At Henkel, EVA<sup>®</sup> is calculated as follows:

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

**Weighted average cost of capital**

	<b>2006</b>
Risk-free interest rate	4.0 %
Market risk premium	4.5 %
Beta factor	0.90
<b>Cost of equity after tax</b>	<b>8.1 %</b>
Cost of debt capital before tax	5.1 %
Tax shield (30 %)	-1.5 %
<b>Cost of debt capital after tax</b>	<b>3.6 %</b>
Share of equity <sup>1)</sup>	75 %
Share of debt capital <sup>1)</sup>	25 %
<b>WACC after tax</b>	<b>7 %</b>
Tax rate	30 %
<b>WACC before tax<sup>2)</sup></b>	<b>10 %</b>

<sup>1)</sup> at market values    <sup>2)</sup> 2005: 11 %

EVA<sup>®</sup> serves to promote value-adding decisions and profitable growth in all our business sectors. Operations exhibiting consistently negative value contributions with no prospect of positive EVA<sup>®</sup> 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 ratio, return on capital employed (ROCE), which is calculated as follows:

$$\text{ROCE} = \text{EBIT} / \text{Capital Employed}$$

ROCE 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<sup>®</sup> and ROCE figures can be found on page 37.

### Statutory and Regulatory Situation

Our business is governed by national rules and regulations and – within the European Union – increasingly by harmonized pan-European laws. One such currently involves the realignment of the chemical policy in the

EU, resulting in changes in the registration, evaluation and authorization of chemical substances. 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, handling, and the packaging and marketing of the finished article. The regulatory instruments involved range from material-related regulations, usage prohibitions or restrictions and procedural requirements (test and inspection, marking, provision of warning labels, etc.), to product liability law. In Germany, the following statutes are particularly important for our operations:

- >> Chemicals law and hazardous substances/dangerous goods regulations
- >> Food and feedstuffs code
- >> Cosmetics regulations
- >> Detergents regulations
- >> 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 sheet directives; cosmetics and product safety directives.

National supervisory bodies monitor compliance with the associated rules and regulations.

We are also required to comply 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 workers, neighbors and the environment. The associated requirements have been incorporated in our internal safety, health and environment 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 assessed and observed.

## Business Performance

### World Economy

The underlying economic conditions in 2006 remained favorable, although there were further rises in raw material prices. World economic output based on the total of the gross domestic product figures of the individual countries underwent a further increase.

Europe achieved tangible growth. In Western Europe, Spain, Scandinavia and the Benelux countries exhibited disproportionate growth rates, while France and Italy remained behind the European average. In Germany, too, there was a degree of economic revival. Eastern Europe once again showed strong growth.

In the USA, business activity eased slightly during the second half of the year.

Most countries in Asia exhibited considerable economic robustness. The economic output of China and India underwent a rapid increase while, at a lower level, Japan's economy also expanded further.

Latin America likewise experienced strong growth.

### Private Consumption and Developments by Sector

After years in the doldrums, consumer spending in Germany once again increased, albeit only to a small extent. Consumers in Scandinavia, Spain and France were significantly more free-spending. Only in the Netherlands did consumption levels decline. In the countries of Eastern Europe, consumer spending also underwent

a significant increase, particularly in Russia. In the USA, there was a slight decline in the rate of rise in private consumption. In Asia, growth in consumer spending remained slightly behind the high rate of overall economic growth. High increases in private consumption were likewise registered in most of the countries of Latin America. 2006 was also characterized by strong industrial growth. However, developments in the individual sectors and regions varied considerably.

While production in the US automobile industry declined, developments in Asia and Eastern Europe reflected a healthy level of business activity. The remainder of the transportation sector developed very well, particularly the aircraft industry.

The electronics industry also registered high growth rates on a worldwide scale in 2006. Chip production, for example, underwent an increase in the low double-digit percentage range.

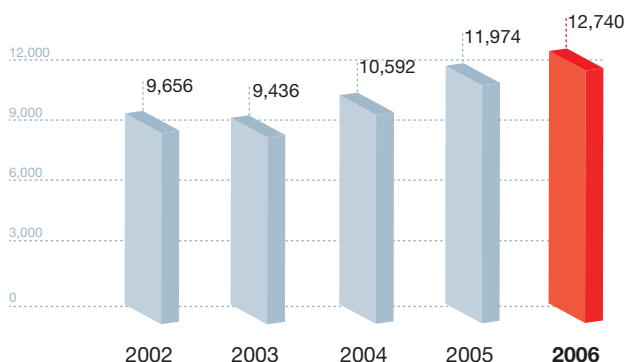
The dynamism of the global economy also generated strong growth momentum in the packaging industry. The metalworking industry likewise expanded.

Development of the construction industry was very mixed in regional terms. While the US housing industry underwent a decline, construction (including housing) in Germany showed an appreciable increase for the first time in some years. Construction in Eastern Europe registered further strong growth. Building activity also remained brisk in many countries of Asia – particularly China. Further details on developments with respect to specific sectors and regions can be found in the individual business sector reports. Stating on page 48.

### Sales and Profits

Henkel Group sales in 2006 amounted to 12,740 million euros, a rise of 6.4 percent compared to the figure for the previous year. Acquisitions and divestments roughly cancelled each other out, contributing just 0.5 percentage points to the increase. Overall, foreign exchange rates had a slightly negative effect of -0.1 percentage points. Organic sales growth, i.e. sales growth

Sales in million euros

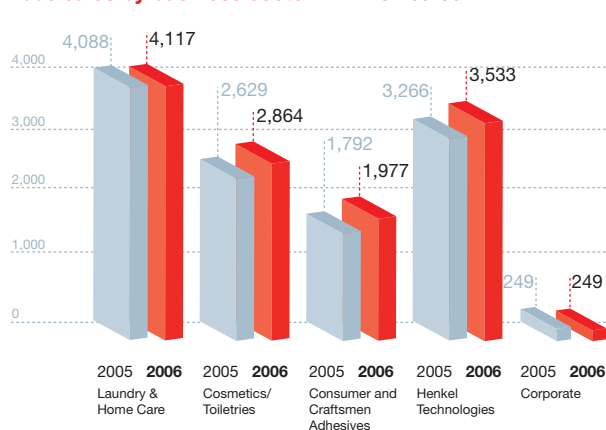


Sales development<sup>1)</sup>

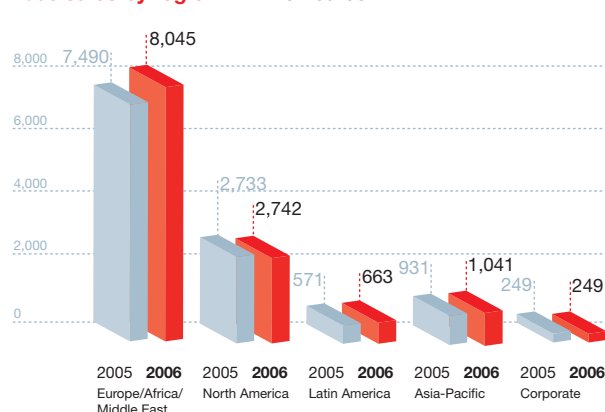
	2006
Change versus previous year	6.4 %
Foreign exchange	-0.1 %
After adjusting for foreign exchange	6.5 %
Acquisitions/Divestments	0.5 %
Organic	6.0 %

<sup>1)</sup> calculated on the basis of units of 1,000 euros

2006 sales by business sector in million euros



2006 sales by region in million euros



adjusted for foreign exchange and acquisitions/divestments, reached 6.0 percent thanks to positive business developments.

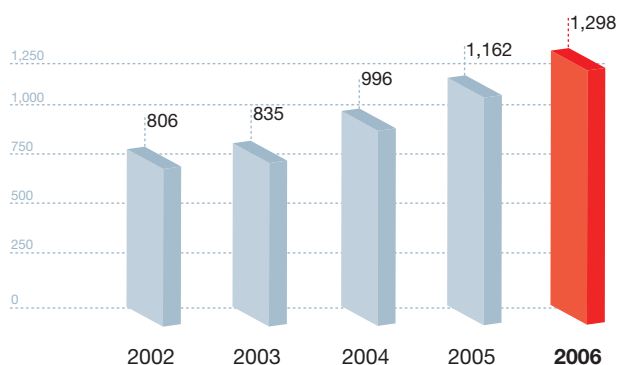
All our business sectors were able to increase their organic sales figure, with growth rates ranging from 4.1 percent in the case of Cosmetics/Toiletries to 8.9 percent at Henkel Technologies. Cosmetics/Toiletries profited from the acquisition of a number of leading deodorant brands from Gillette, while the figures for Laundry & Home Care were affected by the absence of sales from the Dial foods business. At Consumer and Craftsmen Adhesives, the acquisitions of Polybit, Alba Adesivos, the Cimsec tile adhesives business and the sealants business of Rhodia resulted in additional sales revenues. We divested our insulating glass sealant and rubber-to-metal bonding chemicals

businesses from the Henkel Technologies portfolio. Sales of the Corporate segment remained at the level of the previous year.

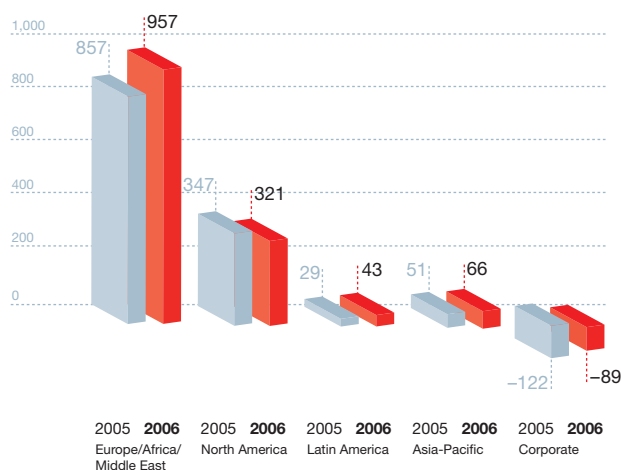
In the regional breakdown, the sales of the Europe/Africa/Middle East region underwent a significant increase of 7.4 percent to 8,045 million euros, with all our business sectors contributing. Growth adjusted for foreign exchange amounted to 7.5 percent, with Eastern Europe and Africa/Middle East exhibiting disproportionately high rates of rise. Germany also posted a gratifying plus. Overall, the share of sales accounted for by the Europe/Africa/Middle East region increased slightly to 63 percent.

Sales of the North America region rose by 0.4 percent to 2,742 million euros despite a negative net contribution from acquisitions and divestments. Sales growth

**EBIT in million euros**



**2006 EBIT by region in million euros**



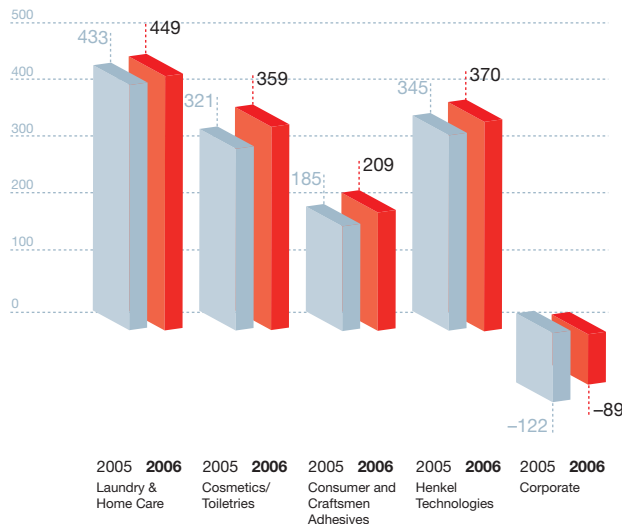
**Henkel Group EBIT**

in million euros	2005	2006
EBIT from business sectors/regions	1,284	1,387
EBIT Corporate	-122	-89
<b>EBIT</b>	<b>1,162</b>	<b>1,298</b>

adjusted for foreign exchange amounted to 0.8 percent. The share of total sales accounted for by this region declined slightly from 23 to 22 percent.

Thanks primarily to strong organic growth, the Latin America region posted an increase in sales of 16.1 percent to 663 million euros, with all our business sectors contributing. After adjusting for foreign exchange, the sales of the region rose by 14.2 percent. The share of total sales accounted for by Latin America remained at 5 percent.

**2006 EBIT by business sector in million euros**



Business in the Asia-Pacific region exhibited similarly positive developments. Sales rose by 11.7 percent to 1,041 million euros, with the increase after adjusting for foreign exchange amounting to 12.0 percent. The two business sectors Consumer and Craftsmen Adhesives and Henkel Technologies particularly were able to profit from the high rate of economic growth experienced by the region, of which the share of total sales remained at 8 percent.

**Operating profit (EBIT)** increased to 1,298 million euros, a rise of 11.7 percent above the prior-year figure of 1,162 million euros. The new total includes profits arising from the divestment of non-core businesses from Laundry & Home Care (16 million euros) and Henkel Technologies (41 million euros), these amounts being utilized in order to strengthen our operating activities. After adjusting for foreign exchange, the increase in operating profit amounted to 11.4 percent.

Return on sales increased by 0.5 percentage points to 10.2 percent. All our business sectors contributed to the higher profitability levels achieved. The EBIT of the Corporate segment improved by 33 million euros, to -89 million euros, due primarily to the assignment of claims relating to a hereditary building lease (43 million euros) to Henkel Trust e.V.



With raw material prices having, in some cases, increased enormously in 2005, the rate of rise in fiscal 2006 was lower. Developments within our individual business sectors were mixed. We were able to pass on a portion of the higher raw material costs in the form of price increases of our own. Moreover, we have now aligned our central purchasing organization along global, cross-divisional lines in order to also secure the best possible procurement terms and conditions even in phases of market volatility. The increase in operating profit and the rise in return on sales are due not least to the continued, successful implementation of the restructuring measures initiated toward the end of 2004. These have led to cost reductions in production, sales and administration.

Our regions also developed very successfully, with double-digit percentage increases in operating profit versus prior year having been reported everywhere apart from North America.

In Europe/Africa/Middle East, operating profit rose by 11.7 percent (11.6 percent after adjusting for foreign exchange). Here too, all our business sectors made a contribution. Return on sales in this region amounted to 11.9 percent, representing an increase of 0.5 percentage points.

In North America, operating profit declined by 7.7 percent (7.2 percent after adjusting for foreign exchange) in the wake of the Dial foods business divestment. Return on sales decreased by 1.0 percentage points to 11.7 percent.

From a still low base, operating profit in the Latin America region increased by 46.2 percent (40.8 percent after adjusting for foreign exchange). All our business sectors contributed to this growth, particularly Henkel Technologies and Consumer and Craftsmen Adhesives. Return on sales improved by 1.3 percentage points to 6.4 percent.

The Asia-Pacific region also succeeded in posting a further increase in profitability: operating profit grew by 30.0 percent (27.4 percent after adjusting for foreign exchange). In this region, too, Henkel Technologies succeeded in registering a significant increase in profits. At

6.4 percent, return on sales in Asia-Pacific was 0.9 percentage points above the figure for the previous year. Further details relating to our business performance can also be found in the reports dealing with the individual business sectors starting on page 48.

### Cost Items

The cost of sales for the year under review rose by 6.3 percent to 6,963 million euros. Despite the worldwide price increases for raw materials and packaging, we succeeded in keeping the rate of rise proportional to sales growth. Gross profit improved by 6.5 percent to 5,777 million euros, and gross margin stabilized at 45.3 percent, the figure for the previous year.

At 3,650 million euros, marketing, selling and distribution costs were 7.0 percent above the prior-year figure.

Expenditures on research and development amounted to 340 million euros, increasing by 4.9 percent compared to the figure for the previous year. The R&D ratio, i.e. research and development expenses expressed as a proportion of sales, remained at the prior-year level of 2.7 percent. Due to high levels of activity aligned to specific projects and efficiency measures, administrative expenses increased by 10.1 percent to 697 million euros. The restructuring charges incurred in the year under review amounted to 56 million euros (2005: 24 million euros), these figures being integrated within the function costs.

### Other Operating Charges and Income

The balance of other operating charges and income increased by 103 million euros to 208 million euros. This rise is due to certain exceptional items. Included in other operating income are profits from the sale of the Dial foods business amounting to 16 million euros and from the divestment of our insulating glass sealant and rubber-to-metal bonding chemicals businesses amounting to 41 million euros. A further increase occurred due to the assignment of claims relating to a hereditary building lease to Henkel Trust e.V. in the amount of 43 million euros. Exceptional charges of

13 million euros were also recognized in income, of which amount 9 million euros was incurred in the form of payments to Germany's Pension Guarantee Association due to the legally prescribed switch to the capital coverage system.

### Financial Items

The financial items total decreased by 2 million euros to -122 million euros. While income from our participation in Ecolab Inc., USA (accounted for by the equity method) increased by 11 million euros, other income from participations decreased by a net amount of 47 million euros compared to the previous year. This was primarily due to the valuation of our stake in the Japanese corporation Lion, which was divested in the year under review. While this investment appreciated by 22 million euros in 2005 due to favorable developments in the Lion share price, a value impairment of 26 million euros had to be charged in 2006.

Net interest expense improved by 34 million euros despite the higher interest rates prevailing. This was primarily due to first-time gains from the plan assets established in the previous year to fund our German pension obligations, an improvement in the net result of foreign currency gains and losses, and reduced net debt.

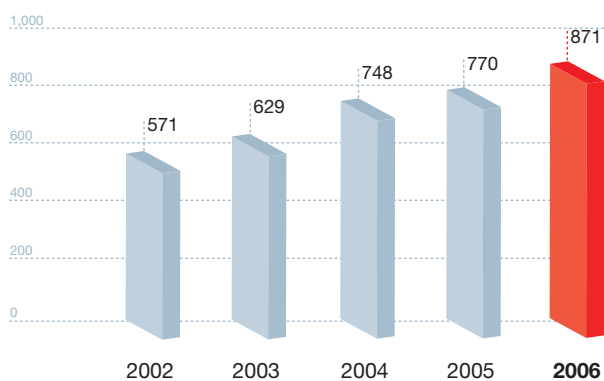
### Net Earnings

Earnings before tax increased by 12.9 percent to 1,176 million euros. Taxes on income amounted to 305 million euros. At 25.9 percent, the tax rate is 0.2 percentage points below the level of the previous year.

Net earnings for the year increased by 101 million euros to 871 million euros. After deducting minority interests of 16 million euros, earnings totaled 855 million euros.

The annual financial statements of Henkel KGaA are summarized on page 115.

Net earnings in million euros<sup>1)</sup>



<sup>1)</sup> comparable values before goodwill amortization

### Dividends and Distribution Policy

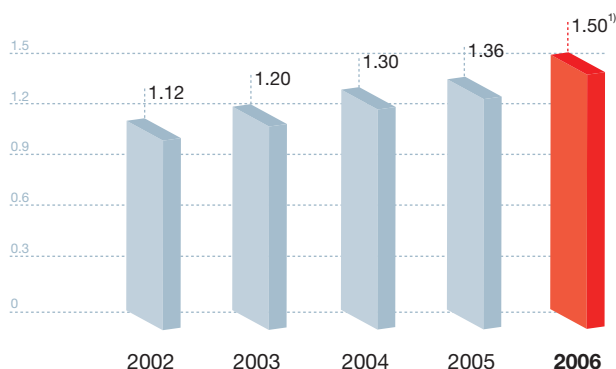
In view of the positive earnings performance, the proposal to be put to the Annual General Meeting will be for a 14 eurocent increase in dividends payable on both classes of share. Amounts of 1.50 euros per preferred share and 1.44 euros per ordinary share will yield a payout ratio of 25 percent. The payout ratio is calculated on the basis of earnings after minority interests. The level of dividend distribution is primarily aligned to profit developments, and should generally be about 25 percent of the earnings figure after adjustment for exceptional items and deduction of minority interests.

### 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 5.31 euros in 2005 to 5.98 euros in 2006. Earnings per ordinary share increased from 5.25 euros to 5.92 euros in the same period.

The Stock Incentive Plan introduced in 2000 resulted in a slight dilution of earnings per preferred share as at December 31, 2006, as the options from all five tranches were "in the money". This effect derives from 357,050 preferred shares that could potentially

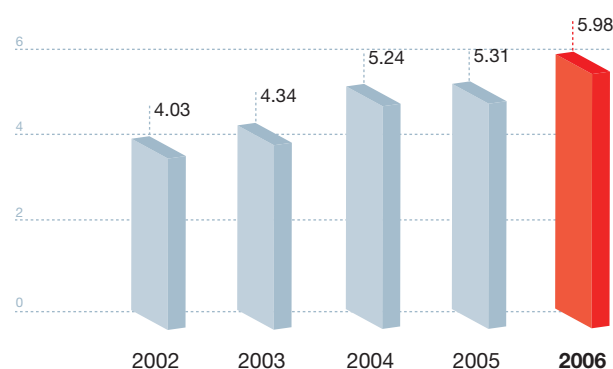


**Preferred share dividends** in euros<sup>1)</sup> proposed

flow back into the market. The resultant dilution in EPS amounts to 4 eurocents as compared to basic earnings per share.

### EVA® and ROCE

In fiscal 2006, the Henkel Group achieved a positive EVA® amounting to 402 million euros, doubling the prior-year figure of 201 million euros. This resulted from a combination of positive developments in operating profit and a lower cost of capital as compared to the previous year. We also generated an improvement in the ROCE ratio – from 13.3 percent to 14.5 percent. These metrics show that Henkel is well positioned for ongoing profitable growth: Henkel generates value added. All our business sectors achieved a positive EVA® outcome in the year under review. For explanations of EVA® and ROCE, see page 30 f.

**Earnings per preferred share** in euros<sup>1)</sup><sup>1)</sup> comparable values before goodwill amortization

## Assets and Financial Analysis

### Acquisitions and Divestments

Having acquired the leading brands Right Guard, Soft & Dri and Dry Idea from Gillette, representing total projected sales for the full year of around 193 million euros, the Cosmetics/Toiletries business sector has now entered the deodorant/antiperspirant segment in North America. We also acquired Jasminal of Tunisia, the market leader in that country for hair care products. The total value of the acquisitions made within Cosmetics/Toiletries was 326 million euros.

The Consumer and Craftsmen Adhesives business sector further expanded its building adhesives business in Europe through the acquisition of the Cimsec brand marketed in Austria and Hungary, and the establishment of a joint venture in Kazakhstan. We

**EVA® and ROCE by business sector** in million euros

	Laundry & Home Care	Cosmetics/Toiletries	Consumer and Craftsmen Adhesives	Henkel Technologies	Corporate	Group
EBIT	449	359	209	370	-89	1,298
Capital employed	2,959	2,328	1,239	2,409	24	8,955
<b>WACC (10 %)</b>	<b>296</b>	<b>233</b>	<b>124</b>	<b>241</b>	<b>2</b>	<b>896</b>
<b>EVA® 2006</b>	<b>153</b>	<b>126</b>	<b>85</b>	<b>129</b>	<b>-91</b>	<b>402</b>
EVA® 2005	83	81	55	86	-104	201
<b>ROCE 2006 (in %)</b>	<b>15.2</b>	<b>15.4</b>	<b>16.9</b>	<b>15.4</b>	<b>-</b>	<b>14.5</b>
ROCE 2005 (in %)	13.6	14.7	15.6	14.7	-	13.3

also acquired Alba Adesivos, Brazil, with annual sales of around 30 million euros. In all, Consumer and Craftsmen Adhesives spent 35 million euros on the purchase of new businesses in the year under review.

In order to focus more on their respective core activities, our Laundry & Home Care business sector sold the Armour foods business of Dial in the USA, and Henkel Technologies divested both the insulating glass sealant business operated by Teroson, Heidelberg, and our Chemosil business (rubber-to-metal bonding chemicals). The proceeds from these divestments amounted to 200 million euros.

### Capital Expenditures

Capital expenditures (excluding financial assets) in fiscal 2006 totaled 863 million euros. Investments in property, plant and equipment for our continuing operations amounted to 431 million euros, 38 million euros more than in 2005. A large slice of this spend went into establishing and expanding production capacities. A further portion was allocated to structural improvements such as merging certain administrative and production operations, and the standardization of information systems. The major individual projects implemented in 2006 were as follows:

- >> Commissioning of production facilities for liquid detergents in Lomazzo, Italy, and Genthin, Germany (Laundry & Home Care)
- >> Construction and commissioning of a distribution center for detergents in Genthin, Germany (Laundry & Home Care)
- >> Relocation and expansion of our production site in Chile (Consumer and Craftsmen Adhesives)
- >> Expansion of our soldering powder production activities with relocation to Yantai, China (Henkel Technologies)
- >> Merging of two factories in Oak Creek, USA (Henkel Technologies)

In regional terms, the emphasis of our capital expenditures in 2006 lay in Europe and North America.

### 2006 capital expenditures in million euros

	Continuing operations	Acquisitions	Total
Property, plant and equipment	431	20	451
Intangible assets	47	365	412
<b>Total</b>	<b>478</b>	<b>385</b>	<b>863</b>

In 2007, spending on property, plant and equipment will continue to be focused on Europe and North America. Major investment projects in the Laundry & Home Care business sector will include production facilities for the manufacture of innovative products combined with measures for further process optimization. The business sector Consumer and Craftsmen Adhesives intends to construct another building adhesives production plant in Russia. Henkel Technologies intends to primarily invest in new production technologies aimed at further increasing efficiency and expanding our capacities in Asia.

### Balance Sheet Structure

Compared to the previous year, the balance sheet totals fell by 598 million euros to 13,346 million euros. On the assets side, the decrease under the non-current heading was primarily due to lower intangible asset values. Despite the addition of further brand rights and goodwill, arising primarily from the acquisition of the deodorant brands Right Guard, Soft&Dri and Dry Idea from Gillette and the purchase of Alba Adesivos, intangible assets fell in value by 173 million euros because, in the year-on-year comparison of closing rates, the US dollar depreciated by 14 cents. There was a slight increase in property, plant and equipment, with investments in our continuing operations (431 million euros) exceeding scheduled depreciation (282 million euros) plus the negative currency translation effect. Financial assets decreased by 116 million euros. While the investment in our associate Ecolab Inc. continued to show positive developments, we divested our participation in the Japanese company Lion Corporation in the fall of 2006.

Under current assets, inventories underwent a slightly higher rise than that of sales, while the increase in trade accounts receivable was significantly lower. The acquisition of the Gillette deodorant brands was financed from our own resources. Year-on-year liquid funds decreased by 283 million euros. Following the sale of the Dial foods business, a major portion of the assets held for sale has now been divested.

Despite a negative currency translation impact of 486 million euros, shareholders' equity once again grew, by 148 million euros to 5,547 million euros. The increase was due primarily to net earnings of 871 million euros. In addition, option-holders exercised their purchase rights, resulting in a further rise of 47 million euros. Aside from the foreign exchange effects, shareholders' equity was also diminished by dividend payments amounting to 202 million euros. Of the net earnings for the year, an amount of 641 million euros was transferred to revenue reserves. The equity ratio rose from 38.7 percent to 41.6 percent.

Non-current liabilities fell by 463 million euros. This includes a significant decrease in pension provisions of 273 million euros. The pension obligations that exist in Germany have, since the previous year, been ring-fenced in a Contractual Trust Arrangement (CTA). The assets of Henkel Trust e.V. were increased by an inpayment of funds and the assignment of claims relating to a hereditary building lease. This resulted in a corresponding further reduction in pension provisions.

Current liabilities fell by 283 million euros. There was a decrease in short-term borrowings, and particularly commercial papers, totaling 393 million euros. This reduction was partially offset by an increase of 161 million euros in trade accounts payable.

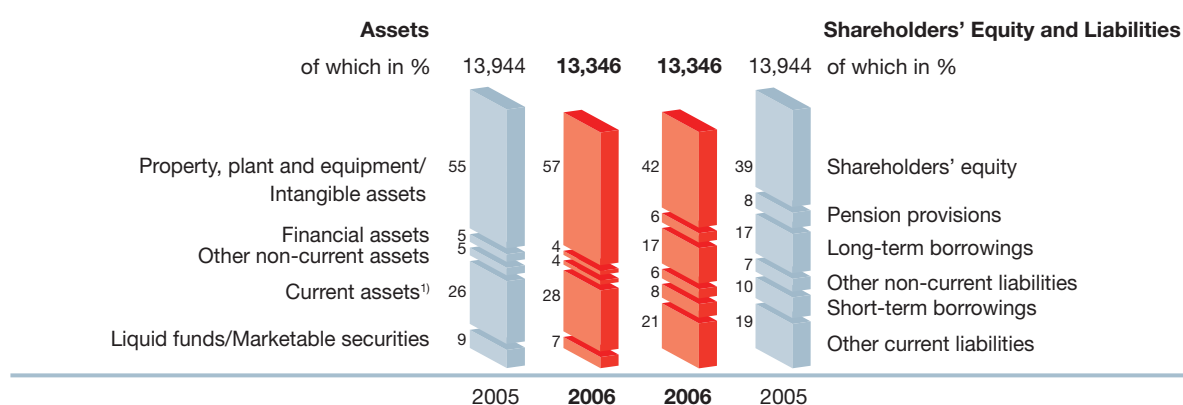
The consolidated balance sheet of the Henkel Group can be found on page 71.

### Cash Flow Statement

At 1,131 million euros, **cash flow from operating activities** was 123 million euros lower than in the previous year. Earnings before interest, tax, depreciation and amortization (EBITDA) increased by 152 million euros. This figure reflects higher profits from divestments and disposals of non-current assets, the proceeds of which are recognized under investing activity. The increase in net working capital represents an outflow of 164 million euros. The increase in inventories, trade accounts receivable and trade accounts payable is due to the expansion in sales volume.

**Cash flow from investing activities/acquisitions** decreased by -68 million euros to -546 million euros, reflecting the increase in acquisition activity in 2006 (400 million euros) compared to 2005 (85 million euros). At 478 million euros, investments in continuing operations were also 42 million euros higher than the prior-year figure. Of this amount, Laundry & Home Care accounted for 145 million euros, Cosmetics/Toiletries for 55 million euros, Consumer and Craftsmen Adhesives for 67 million euros, Henkel Technologies for 158 mil-

### Balance sheet structure in million euros



lion euros, and the Corporate segment for 53 million euros. These outflows were offset by proceeds from the divestment of the Dial foods business and of the non-core businesses of Henkel Technologies, and from the sale of other assets.

At -758 million euros, **cash flow from financing activities** shows a significantly lower negative balance than the figure for the previous year (-1,468 million euros). The continuing process of reducing our debt resulted in an outflow of 194 million euros. The change in borrowings recognized in the previous year contained the proceeds of the hybrid bond amounting to approx. 1.3 billion euros, which were offset by the initial allocation of funds to the Contractual Trust Arrangement (Henkel Trust e.V.). Payments into the CTA in the year under review amounted to 188 million euros.

Boosted by the divestments and disposals mentioned, **free cash flow** – shown before capital expenditures on financial assets/acquisitions and before dividends paid – amounted to 786 million euros, 102 million euros higher than in the previous year. After adjusting for the utilization of provisions for our Advanced Restructuring measures, free cash flow increased by a further 97 million euros to 883 million euros.

The detailed cash flow statement can be found on page 72.

### Key Financial Ratios

Our key financial ratios underwent a further improvement in 2006. The debt coverage and gearing ratios reflect the decrease in borrowings and reduced pen-

sion obligations, and hence a good overall financial position. The interest cover ratio increased due to the higher operating profit before depreciation and the improvement in net interest expense, while the rise in the equity ratio underlines the stability of our net assets position.

### Employees

The number of people employed by the Company at the end of the year under review was 52,292.

In the course of the year, the headcount fell by 273. Around 80 percent of our employees work outside Germany. Per capita sales increased by 6.4 percent to 246,300 euros, and Henkel Group payroll costs increased by 78 million euros to 2,351 million euros. The payroll cost ratio – this describes the relationship between personnel costs and sales – fell from 19.0 to 18.5 percent.

Further details relating to our personnel structure can be found on page 107 in the Notes to the Consolidated Financial Statements.

In 2006, our German sites hired 167 new trainees and apprentices. This corresponds to a plus of 14 percent compared to the previous year. As a result, there are 473 trainees and apprentices under contract in Germany, receiving tuition in 26 chemical, engineering and commercial professions. At our Düsseldorf site, we have in recent years been able to offer almost all our apprentices and trainees full-time positions.

In the field of training and qualification, we implemented a project to extend our control capability and

### Key financial ratios

	2005	2006
Interest coverage ratio ( <i>EBITDA / net interest expense including interest element of pension provisions</i> )	7.1	9.4
Debt coverage ratio ( <i>net earnings before minority interests + amortization and depreciation + interest element of pension provisions / net borrowings and pension provisions</i> ) <sup>1)</sup>	39.9 %	48.4 %
Equity ratio ( <i>equity / total assets</i> )	38.7 %	41.6 %
Gearing ( <i>net borrowings and pension provisions / equity</i> )	0.68	0.58

<sup>1)</sup> hybrid bond included on 50 % equity basis

increase the effectiveness of our educational activities. This project won us first place in the “2006 Initiative Awards for Training and Qualification” jointly organized by the Association of German Chambers of Industry and Commerce (DIHK), the educational foundation Otto-Wolff-Stiftung and the German business weekly “Wirtschaftswoche”.

Further points of emphasis in our HR policy related to the issues of diversity, talent management and employer image.

Our approach to diversity is holistic in nature, with the Company regarding the differences between employees in terms of their age, origin and gender as providing further opportunities for business success. Using a new digital “Diversity Cockpit” we are now able to quickly generate a clear overview of the most important global data and indices relating to this issue. One example of such an index shows that we have succeeded in increasing the proportion of women in managerial functions to 24.6 percent; however, this is an area in which further effort is required.

Our talent management system enables us to identify at an early stage young potentials from around the world, to provide them with specific support and to deploy them to optimum effect within the Company. Innovative and effectively coordinated HR management instruments ensure systematic employee development as well as cogent career and succession planning. All line managers and senior personnel are involved in this process, irrespective of their position in the hierarchical structure, function or region. As a result, the associated issues receive the appropriate priority, support and attention throughout the entire organization.

We also submit our image to systematic examination in terms of its effect on recruitment success. Together with a renowned market research institute, we conducted a survey targeted at top students and universities in Europe. The results reaffirmed our strategy for attracting personnel.

Our worldwide success is based on a multi-cultural and international management approach. Among managerial staff, the proportion of non-German personnel now amounts to over 70 percent. In all, we have around 9,100 managers from 80 different countries working for Henkel.

Since 2004, we have been conducting regular management surveys and subjecting the results to an external global comparison. With a participation of 85 percent, the latest survey held in 2006 enjoyed the highest response ratio to date. Importantly, the results indicated clear improvements under the headings Corporate Values and Ethical Understanding. Our managerial staff also appear to be thoroughly cognizant with and committed to our Vision, our Values and our Code of Conduct.

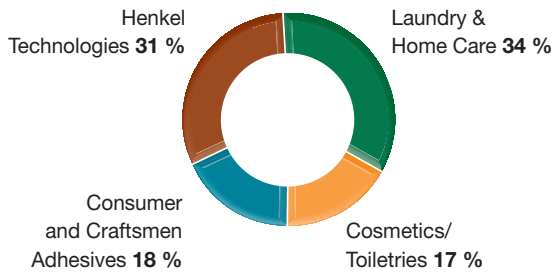
As in all areas at Henkel, we have consolidated and harmonized the IT systems, databases and processes applicable to our HR management activities. Now, all our worldwide personnel management systems are to be merged within a corporate-wide and uniform master data system in order to provide efficient support to our front line business units operating in our markets.

In our North American business, we realigned and harmonized the remuneration system including all company benefits.

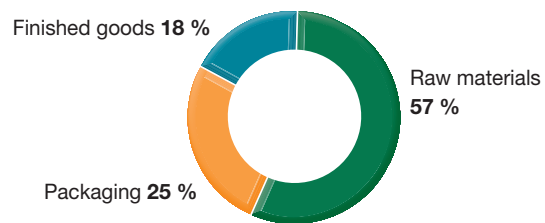
#### Employees (as of December 31)

	2002	%	2003	%	2004	%	2005	%	2006	%
Europe/Africa/Middle East	34,736	71.5	34,189	70.3	33,692	65.8	33,731	64.2	33,799	64.7
North America	4,474	9.2	4,181	8.6	6,772	13.2	7,271	13.8	6,651	12.7
Latin America	3,042	6.2	3,946	8.1	4,325	8.5	4,208	8.0	4,297	8.2
Asia-Pacific	6,386	13.1	6,312	13.0	6,411	12.5	7,355	14.0	7,545	14.4
<b>Total</b>	<b>48,638</b>	<b>100.0</b>	<b>48,628</b>	<b>100.0</b>	<b>51,200</b>	<b>100.0</b>	<b>52,565</b>	<b>100.0</b>	<b>52,292</b>	<b>100.0</b>

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



**Purchase volumes by material type**



**Procurement and Production**

We have significantly improved our purchasing organization and processes, enabling us to effectively meet the challenges of the raw material markets and to support our businesses with an increasingly international presence. For this we have formed global purchasing teams who are responsible for sourcing Henkel’s external purchases. These teams work on a cross-divisional and cross-discipline basis and are aligned to the strategies of the business sectors.

Appropriate best-practice methods have been developed for strategic procurement, supplier relationship management, purchase order handling and business intelligence. These methods were first tested in relation to individual material groups and have now been applied to all material groups and regions. E-procurement solutions and improved delivery processes are intensively utilized in order to reduce the cost of order handling – for example in Europe where already over 60 percent of our purchase orders for indirect materials are handled using e-tools. To support these worldwide sourcing activities, we have also developed and implemented a new, global purchase information system.

The purpose of all our activities is to achieve optimum exploitation of the opportunities arising in a global procurement market, to apply the best purchasing tools and processes and, by working together with the most efficient and best-performing suppliers, to satisfy the requirements of our business sectors.

The 2006 financial year saw a continuation of the tense situation in the markets for raw materials and packaging. The overall cost of raw materials, auxiliaries and supplies, plus packaging, merchandise and outside services increased to 5.6 billion euros (2005: 5.0 billion euros). This rise resulted from higher production volumes and price increases for individual raw materials, but was ameliorated by globally coordinated activities designed to reduce purchase costs.

Our five most important raw material groups account for around 15 percent, and the five most important suppliers for about 14 percent, of our procurement volume.

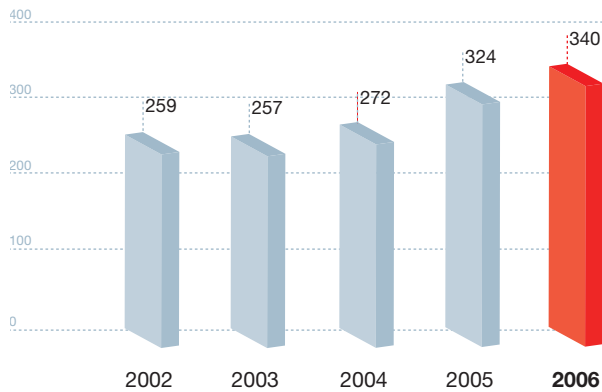
With the improvements achieved and the program for further optimization of our purchasing activities, we have created a new, competitive platform for meeting the challenges arising out of our volatile and strained procurement markets.

Henkel has production sites in 52 countries around the world. Our largest facility is in Düsseldorf where we manufacture detergents and cleaning products as well as adhesives for the DIY and craftsmen segment and products for our industrial customers.

**Research and Development**

Expenditure on research and development at Henkel amounted to 340 million euros in the year under review, compared to 324 million euros in 2005. The share of sales (R&D ratio) thus remained unchanged at



**R&D expenditures** in million euros

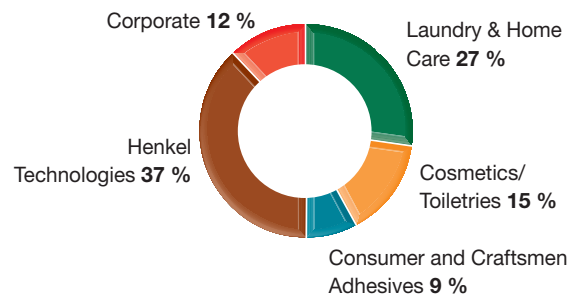
Year	R&D ratio
2002	2.7 %
2003	2.7 %
2004	2.6 %
2005	2.7 %
2006	2.7 %

(research expenditures as a proportion of sales)

2.7 percent. Of the total, we spent 41 million euros on corporate research and 299 million euros on the product and process development activities of the business sectors. As an annual average, the number of employees working in research and development at the Company's sites around the world remained unchanged at 2,800, the majority being deployed in Germany and the USA. In China, we are currently expanding our Shanghai facility as a central research site for all four of our business sectors.

We utilize all the worldwide resources of R&D information available to us in order to secure the success of the Company going forward. We marshal both internal and external expertise for the purpose of strengthening and extending our product portfolio and developing new markets. Through their work, our scientists and engineers lay the basis for tomorrow's success, safeguarding the innovation capabilities and earning power of Henkel into the future.

Our more long-term corporate research activities are conducted within a worldwide scientific network. In addition to our Corporate Research unit in Düsseldorf, our research companies SusTech in Darmstadt and Phenion in Düsseldorf, and also Henkel Kindai

**R&D expenditures by business sector**

Laboratories in Japan, contribute significantly to our innovation strength through their work in the fields of nanotechnology, skin research and functional polymers. All results are transferred to the business sectors to provide new possibilities for portfolio expansion.

Our scientists are currently working on the following projects, among others:

- >> Development of innovative enzymes for achieving specific improvements in laundry power
- >> Avoidance of biofilms and harmful microbiological effects in the household, in cosmetics and in technical applications
- >> Development of innovative hygiene concepts for anti-microbial products and surfaces, and for preservation systems
- >> Investigations into the principles governing biomolecular actives capable of influencing hair growth, structure and graying
- >> Development of new technologies for hair coloration, hair styling and hair care
- >> Development of innovative composites for employment in aircraft engineering and the electronics industry
- >> Prediction of toxicological properties using computer-aided models
- >> Optimization of production processes through the application of new automation technologies

Phenion, our research company for cellular biology and biotechnology, was transferred from Frankfurt/Main to Düsseldorf (both Germany) in the fall of 2006, and realigned as a competence center for skin research. One of its particular focal areas is the development of alternatives to animal testing – for example on the basis of skin models – for the toxicological evaluation of raw materials. In order to accelerate the validation of such substitute methods by the legislators, Henkel and Phenion are participating in the project “European Partnership for Alternative Approaches to Animal Testing” (EPAA).

With 2006 being Henkel’s first Year of Innovation, the staff of Corporate Research and our operational research and development units have been working hard on evaluating the R&D related suggestions arriving from around the world and, converting them into innovative and improved products or technologies where appropriate.

As in previous years, Corporate Research achieved some outstanding results in 2006. For the third time since 2004, we have selected a number of exemplary projects for our “Research/Technology Invention Awards”. Each of the prize-winning projects provides Henkel with new potential for business development or cost reduction:

>> Chrome-free primer:

A resource-conserving and environmentally compatible corrosion protection system (primer) for metal pretreatment in aircraft construction has been developed.

>> HELIOZ (Henkel Line Optimization Planning Cockpit)

HELIOZ is an innovative, mobile diagnostic and planning tool with which Henkel optimizes packaging lines in production quickly, easily and reliably.

>> Systems for controlling industrial fermentation (BioChips):

This project involves the development of a DNA-based diagnostic tool for monitoring fermentation processes, e.g. in the production of enzymes for Henkel laundry detergents.

#### Important R&D sites<sup>1)</sup>



<sup>1)</sup> ranked by number of R&D employees

We also – for the 25th time since 1982 – selected a number of exemplary research and development projects for the “Fritz Henkel Award for Innovation”. In 2006, this accolade went to four interdisciplinary project teams in recognition of their efforts in the realization and commercialization of the following concepts:

- >> Vernel and Silan Aromatherapy: This fabric softener with essential oils not only softens laundry but also imbues it with a fascinating fragrance.
- >> Gliss Kur Total Repair 19: A high-performance formula with 19 active ingredients restructures the hair and protects its surface.
- >> Thomsit XXL: Very low-emission floor leveling compound that creates mirror-smooth surfaces for installation of floorcoverings and parquet.
- >> P3 Disperse for LCD Color-Filter-Cleaning: A series of highly concentrated, water-based specialty cleaners for the manufacture of high-performance color filters for LCD flatscreens.

We protect our technologies around the world through more than 8,000 patents. We also have over 5,000 patent applications pending, and we possess more than 2,000 registered designs safeguarding our intellectual property.

Further information on our research and development activities can be found on our website at [www.henkel.com/innovation](http://www.henkel.com/innovation).



## Marketing and Distribution

We align our marketing and distribution activities in each business sector to the specific requirements of our customers.

At *Laundry & Home Care*, our marketing activities are controlled from headquarters and the regional competence centers. Our sales activities are managed on a country-specific basis and coordinated at the regional level.

Our direct customer grouping in this business sector is the grocery retail trade representing 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, a large proportion of sales continues to be channeled via wholesalers and distributors. As the trade's first point of contact, the Sales unit provides a full range of competences in serving our customers.

In marketing, however, we focus on the requirements of the end consumer. Our Marketing unit initiates innovation processes and applies knowledge acquired from market research and analysis activities. It also develops and implements media strategies and advertising formats aligned to the consumer.

At the *Cosmetics/Toiletries* business sector, our marketing strategies are centrally planned and globally implemented with respect both to our consumer brands and the hair salon products 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, and the main distribution channels are specialist drug stores, grocery outlets and department stores. Our customers in the hair 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 44 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. For the most part, users of our products are not supplied directly but rather via the trade. While supermarkets, DIY stores and specialty retailers are essential to the private user, professional craftsmen tend to purchase from various types of specialty wholesalers. We only supply direct to certain major building projects. For Henkel as a supplier of leading brand products, communication with end users is also of critical importance. In the case of 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.

In the *Henkel Technologies* business sector, too, our marketing and sales activities are closely aligned to the different requirements of the individual market segments. The major, globally active automobile manufacturers, for example, are centrally supported by key account management teams. In view of the fact that the metals and electronics industries are extensively global in structure, our marketing activities serving the associated markets are controlled from a centralized base. For segments with a more local alignment – for example the graphics industry and the furniture or the food industries – the region concerned carries the responsibility for the associated marketing activities. Brands play a decisive role not only in the consumer goods but also in the capital goods sector. Consequently, we focus our marketing activities there too specifically on our major and global brands.

Our customers in the form of industrial users and manufacturers are supplied both directly and also via a network of distributors. Particularly in the industrial maintenance, repair and overhaul sector, and also in the field of automobile repair and maintenance, we have at our disposal an established pool of engineering

wholesalers who are able to exert a considerable influence on what our end customers buy. As a premium supplier, our main aim is to provide our customers with competent advice and to deliver to them products and services of a constantly high standard of quality.

## Sustainability

Henkel is dedicated to sustainability and corporate social responsibility. We clearly state this principle as one of the corporate values binding on all our employees. We generate sales and profits while behaving in a socially responsible manner in all our activities and along the entire value chain. We are in no doubt that effective environmental protection and good corporate citizenship are, in the long-term view, essential to our entrepreneurial success.

The Henkel Management Board bears full responsibility for the Company's sustainability policy. A Sustainability Council controls our global activities in collaboration with our operating business sectors, the regional and national companies and our corporate functions.

In signing the "Global Compact" of the United Nations in July 2003, we also made public our commitment to uphold human rights, including the basic rights of employees, to promote environmental protection and to oppose all forms of corruption. Our understanding of socially responsible behavior has been specifically detailed for the entire Company through our "Code of Corporate Sustainability" and our "Code of Conduct". These codes apply together with our more detailed internal SHE standards governing safety, health and environmental protection, our Social Standards and our Group Purchasing Guidelines. Adherence to these requirements and regulations is regularly examined by corporation-wide internal audits. In addition, Henkel companies have their management systems externally certified where such procedures give rise to competitive advantage. At the end of 2006, 55 percent of our production volume was generated at sites certified in accordance with the worldwide environmental management standard ISO 14001.

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 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 and have no adverse effects on either health or the environment.

Henkel thus also supports the basic objective underlying the 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 legal process surrounding REACH was completed in December 2006; however, many details relating to its implementation remain open. In order to limit the additional costs generated by REACH, Henkel has already introduced new, and modified existing processes, preparing the Company in good time for the future requirements likely to arise.

Under REACH, Henkel's role is primarily that of a user of chemicals. On the basis of our current knowledge of REACH and the likely requirements arising from the new legislation, we envisage being able to integrate the necessary capability for evaluating product ingredients within our existing assessment processes. As we are also affected by REACH in our capacity as an importer and manufacturer of chemicals, from 2009 we will incur additional costs for the registration of imported and self-manufactured substances. The licensing requirements for especially hazardous substances are unlikely to impact Henkel products in the Laundry & Home Care and Cosmetics/Toiletries business sectors, and should hardly affect the products of our Consumer and Craftsmen Adhesives business sector. Such substances are today already absent from Henkel's consumer products. Certain licensing requirements may arise with respect to the products of our Henkel Technologies business sector. Working groups with members from across the Company are involved in ensuring that, once the REACH requirements come

into force, the necessary procedures can be quickly and efficiently implemented. This includes communication with our commodity suppliers and the customers of our technical products, as well as the pre-registration of raw materials.

The implementing regulations for REACH need to be pragmatically drafted. Henkel is actively involved at the European level in the preparation of corresponding proposals. The focus here is on ensuring that products can be evaluated with efficient processes on the basis of the individual assessments of the ingredients employed.

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. Such renewable raw materials are also key constituents in our glue sticks, wallpaper pastes, packaging adhesives, detergents and body wash products. In the case of our Pritt Stick, for example, such substances make up around 90 percent of the dry mass, while the proportion of renewable raw materials in our surfactants for detergents and cleaning agents lies in the region of 35 percent. In order to become less dependent on petroleum-based raw materials over the long term, Henkel is working on the development of further high-performance ingredients derived from renewable raw materials.

Our achievements in relation to sustainability and corporate social responsibility have also been recognized by external organizations. Once again, we have been incorporated in various international ethical indexes such as the Dow Jones Stoxx Sustainability and the FTSE4Good. As in 2004, Henkel took first place in the Oekom Corporate Responsibility Rating for the consumer goods industry in 2006.

Once more in the year under review, we were able to improve on significant indicators that characterize our sustainability performance. Worthy of particular mention is the decline in work-related accidents by 72 percent over the last five years, evidencing the efficacy of our occupational health and safety programs.

We have also been able to reduce energy consumption as a function of production volume, with optimized production processes resulting in a decrease of 27 percent. Such savings help to compensate for the increase in energy prices and – due to the associated reduction in carbon dioxide emissions – in attainment of the climate protection targets of those countries in which we are active.

As a responsible corporate citizen, we provide financial and material support for projects aligned to social welfare, the environment, education, science, health, sport, art and culture. These contributions emanate both from central sources within Henkel and from our local sites.

Since 1998, moreover, we have been active in supporting the voluntary work performed by our employees and retirees. In 2006, under our worldwide MIT initiative (= Make an Impact on Tomorrow), Henkel supported a total of 1,191 charitable projects, of which 262 were children's projects, in more than 100 different countries.

Future-viable solutions geared toward sustainable development can only be found in consultation and collaboration with all social groupings. In order to be able to take into consideration and evaluate the interests of these different communities on a case-by-case basis, we constantly seek dialog with all our stakeholders at the local, regional and corporate level. These include our employees, shareholders, customers, suppliers, public authorities, trade associations and non-governmental organizations, as well as science, academia and the public at large.

We first published our annual Environment Report in 1992. This was replaced in 2001 by our annual Sustainability Report. With this, we document the high priority assigned to sustainability by the Company while at the same time satisfying our Global Compact reporting obligations. Further information, reports, background details and the latest news on sustainable development at Henkel can be found on our website [www.henkel.com/sustainability](http://www.henkel.com/sustainability).

Our brands excel thanks to

# Innovation, Quality, Trust and Added Value

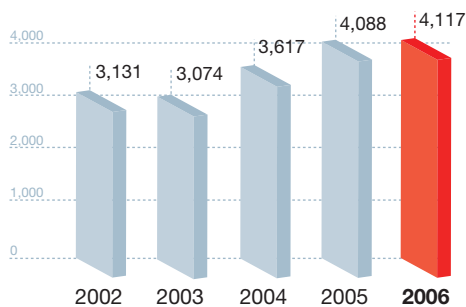


# Persil

# Laundry & Home Care

## Key financials<sup>1)</sup>

Sales in million euros



<sup>1)</sup> calculated on the basis of units of 1,000 euros

in million euros	2005	2006	Change
Sales	4,088	4,117	0.7 %
Proportion of Henkel sales	34 %	32 %	-2 pp
Operating profit (EBIT)	433	449	3.7 %
Return on sales (EBIT)	10.6 %	10.9 %	0.3 pp
Return on capital employed (ROCE)	13.6 %	15.2 %	1.6 pp
EVA <sup>®</sup>	83	153	85.3 %

pp = percentage points

## Organic sales growth of 4.6 percent

## Operating profit further increased

## ROCE raised to 15.2 percent

### Economic environment and market position

The world market for laundry and home care products underwent further dynamic expansion, with the markets of relevance for us growing by more than 3 percent. Market growth was more price-driven than in previous years because – unlike in 2005 – it became possible to pass on raw material cost increases by raising product prices. As a consequence, the decline of the last few years encountered in our largest market, Western Europe, was reversed to produce gratifying growth. In North America, too, there was a tangible price-driven upswing in the market dynamics, with a considerable expansion in sales. Of the other major markets, Russia recorded the highest market growth rate.

Against this background, the Laundry & Home Care business sector once again occupied leading global positions in the markets of relevance for us.

### Business activity and strategy

In keeping with our focus on the laundry and home care product markets, in the year under review we divested the North American foods business acquired with Dial. We pursue a selective market coverage approach with the air freshener and insecticide business

categories acquired through Dial and Clorox. We intend to continuously expand our global market position on the basis of our leading position in Europe. In this strategy, regional growth takes precedence over the development of additional product categories.

Great importance will attach to driving organic sales growth and continuing the increase in profitability in the next few years. We are concentrating on achieving further growth in our largest markets of Western Europe and North America, and on further increasing return on sales in the growth regions. The main factors here will be our innovation capability and the continued strengthening of our international brands.

### Sales and profits

Despite having divested the Dial foods business, we were able to exceed our prior-year sales figure by 0.7 percent to 4,117 million euros. Organic growth was a highly encouraging 4.6 percent. We were able to further expand our market position in the Europe/Africa/Middle East

### Sales development in percent

	2006
Change versus previous year	0.7
Foreign exchange	-0.2
After adjusting for foreign exchange	0.9
Acquisitions/Divestments	-3.7
Organic	4.6

region. In Western Europe including Germany, business activity picked up from the second quarter, i.e. once the trade and consumers had accepted the price increases implemented at the beginning of the year. We achieved the highest growth rate of all our regions in Eastern Europe, with both good market development and the expansion of our market positions contributing. Our sales performance was particularly encouraging in Russia, and also in Poland and Ukraine. In Africa/Middle East, too, we achieved double-digit growth rates, although developments were mixed: in countries such as Algeria and Tunisia, where we already occupy leading market positions, we grew in line with the market, while in other countries such as Iran or Egypt, we achieved a disproportionate expansion in our business.

In North America, the successfully implemented price increases and good performance of our air freshener business contributed to strong growth in organic sales.

We increased operating profit (EBIT) to 449 million euros. This corresponds to a rise of 3.7 percent, which is higher than the rate of sales growth.

Raw material and transportation costs continued to increase through 2006. However, with a worldwide cost reduction program, we succeeded in compensating for major portions of this cost hike. As a result, we were able to utilize a portion of our price increases for expansion in our advertising and promotional activities while also further improving return on sales. This grew by 0.3 percentage points to 10.9 percent.

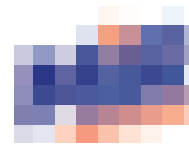
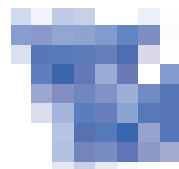
Return on capital employed (ROCE) rose by 1.6 percentage points to 15.2 percent. We achieved this through ongoing optimization of our net working capital and the release of capital arising from the sale of the Dial foods business.

### Market segments

Both market segments, namely laundry and home care, contributed to organic growth. Within the *laundry* segment, our heavy-duty detergents benefited particularly from the implemented price increases, which were additionally supported by an advertising campaign for Purex in the USA and the European anti-gray relaunches of our premium brands. Our special detergents underwent even faster growth than the heavy-duty detergents. This was due, among other things, to further market penetration in the growth regions Africa/Middle East and Latin America. In Europe, it was the successful Aromasoft and Aromatherapy campaigns instituted for our fabric softeners under the Vernel and Silan brands that primarily contributed to the encouraging sales performance. In the relaunch of Persil with a touch of Vernel, we combined the strengths of two successful brands for the first time. The rise in the share of sales accounted for by our premium brands and our profitable special detergents had a positive effect on the profitability of the segment.

In the case of the *home care* segment, our dishwashing products were particularly successful. In Western Europe, design-oriented innovations such as the Pril

**Persil**





Funny Man and technological advancements as with Somat 5 were the main contributors. In Eastern Europe and the other growth regions, we achieved a double-digit percentage increase in sales as a result of stronger market penetration and the introduction of higher-end products. Worthy of particular note is the success of Pril in India. Here, where dishwashing is traditionally done with solid bar soaps, we were the first market participant to introduce a liquid dishwashing detergent into the market and have been able to maintain this lead even against strong competition. We also achieved above-average growth with our air fresheners. In this category, we are primarily represented by the brands of Dial in North America, which we are also now selectively introducing into other countries. The growth is particularly attributable to successful new launches and strong selling and distribution performance in North America. There we were also able to generate substantial increases in sales as a result of the revamp of our household cleaner Soft Scrub. The best performance in Western Europe was achieved by our WC products, particularly our WC rim blocks. Following the Fresh Surfer design version developed in collaboration with Alessi, the Wild Kayak was also well received by the trade and consumers alike.

### Capital expenditures

The main areas of investment were warehousing technology, packaging technology and site safety. As examples, we invested in a large regional warehouse

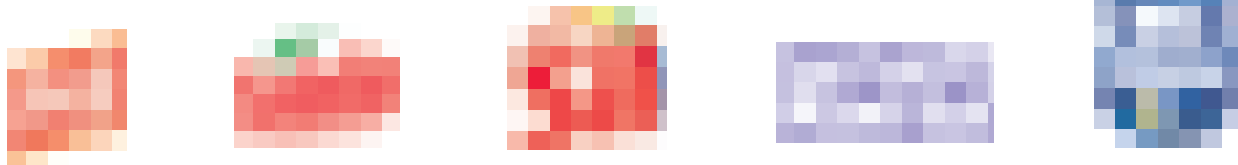
in Genthin, Germany; to improve site safety, we installed an explosion protection system that meets the increased requirements imposed by the introduction of a new EU directive. In all, we invested 139 million euros in property, plant and equipment compared to 132 million euros in the previous year.

### Outlook

We expect the markets of relevance to us to expand by between 2 and 3 percent in 2007. The scope for increasing our product prices will, however, decrease, not least due to the increase in value added tax in Germany and easing economic activity in the USA. On the other hand, we expect raw material and transportation costs to undergo no more than a moderate increase.

Against this background, we expect organic sales growth in 2007 to be above the market average, accompanied by a further increase in operating profit.

We see particular opportunities arising from continued dynamic development in the Eastern European markets, especially Russia, and in the sustained market recovery taking place in Western Europe. Thanks to our strong market position in both regions, we can look forward to benefiting disproportionately from these developments. The primary risks lie in a further increase in price competition in the European and North American markets. Because of our presence in Africa/Middle East, we are also becoming increasingly exposed to political risks. Another risk lies in the ongoing concentration of retail customers.



Our brands excel thanks to

# Innovation, Quality, Trust and Added Value



Our innovative products introduced in the hair cosmetics market underline the hair competence of the Schwarzkopf umbrella brand and in 2006 resulted in record market shares in all segments.

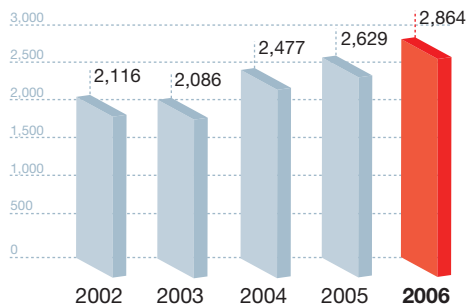
# Schwarzkopf



# Cosmetics/Toiletries

## Key financials<sup>1)</sup>

Sales in million euros



<sup>1)</sup> calculated on the basis of units of 1,000 euros

in million euros	2005	2006	Change
Sales	2,629	2,864	8.9 %
Proportion of Henkel sales	22 %	22 %	–
Operating profit (EBIT)	321	359	11.7 %
Return on sales (EBIT)	12.2 %	12.5 %	0.3 pp
Return on capital employed (ROCE)	14.7 %	15.4 %	0.7 pp
EVA <sup>®</sup>	81	126	55.7 %

pp = percentage points

## Organic sales growth of 4.1 percent

## Operating profit increased by 11.7 percent

## ROCE raised to 15.4 percent

### Economic environment and market position

The growth of the world cosmetics market of relevance for Henkel was around 2 percent in fiscal 2006. Development of the highly competitive Western European branded consumer goods market remained sluggish. Nevertheless, we achieved above-average growth in this region. Boosted by our positive performance in the hair cosmetics segment and the body care business, we were able to expand our market positions and gain market share. Eastern Europe, Asia-Pacific and Latin America exhibited stronger market growth, in which we successfully participated. The North American market underwent a slight upturn. In North America, we substantially expanded our position in the body care segment through acquisition of the brands Right Guard, Soft & Dri and Dry Idea from Gillette.

There were positive developments in the international hair salon market. Here again, the growth drivers were the markets of Eastern Europe and Latin America. As a globally aligned, innovative salon specialist, Schwarzkopf Professional enjoyed above average participation in this development.

Throughout the world, the Cosmetics/Toiletries business sector holds leading positions in the markets of relevance for us.

### Business activity and strategy

The Cosmetics/Toiletries business sector is active both in the branded consumer goods segments of hair cosmetics, body care, skin care and oral care, and in the hair salon business. Our intention is to further expand the branded consumer goods business with a regional focus. The emphasis will be on developing our strong market positions in Europe, increasing market development in North America and implementing carefully selected activities in Asia. We are continuing our globalization strategy in the hair salon business. We intend to achieve growth primarily through the organic expansion of our businesses and especially through the development and rapid market launch of innovative products. We will continue looking at appropriate acquisitions to accelerate business expansion and supplement organic growth. In our branded consumer goods business, we are concentrating on

### Sales development in percent

	2006
Change versus previous year	8.9
Foreign exchange	–0.2
After adjusting for foreign exchange	9.1
Acquisitions/Divestments	5.0
Organic	4.1

the international expansion of our core activities in hair cosmetics and body care. At the focus of our hair cosmetics strategy is the continuous development of our leading umbrella brand Schwarzkopf and our core competences in colorants and styling. In body care, we will continue our innovation offensive, further building on our latest market successes in Europe. In North America, we are concentrating on expanding our core brand Dial and the newly acquired Right Guard business. In extending our skin care brand Diadermine, and also in the further development of our oral care activities, we will be concentrating on Europe. Our hair salon business, currently the number three in the world, is to be further strengthened with product innovations. Here we also want to develop new regional potential on a selective basis.

Our strategy of expanding and further strengthening our core businesses and core competences is aligned to the objective of achieving further, continuous improvement in profitability.

### Sales and profits

In the year under review, sales increased by 8.9 percent to 2,864 million euros. Organic growth versus prior year was a substantial 4.1 percent. Our branded consumer goods business in Western Europe expanded considerably faster than the market, and in Eastern Europe we were able to continue our strong performance with a double-digit increase. There was also expansion in the Middle East and Latin America. Our sales performance in North America was characterized by expansion in our Dial business and the successful integration of the brands acquired from Gillette. Our hair salon business likewise exhibited growth far above that of the market.

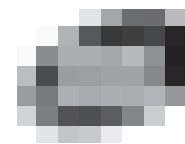
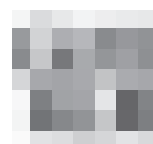
At 359 million euros, operating profit (EBIT) was 11.7 percent above the figure for the previous year. This

rise, stronger than that of sales, is primarily due to cost savings in production and administration achieved within the framework of our successful program of optimization measures, supplemented by the results attributable to Right Guard. Through formulation and packaging improvements, we succeeded in limiting the impact arising from the slight increase in raw material prices that occurred. Consequently, we were able to improve return on sales by 0.3 percentage points to 12.5 percent.

At 15.4 percent, return on capital employed (ROCE) was 0.7 percentage points above the level for the previous year.

### Market segments

The strategic focus of our branded consumer goods business in 2006 was on hair cosmetics and body care. We were able to generate substantial sales growth in the *hair cosmetics* business with our top brands in the colorants, hair care and styling segments leading the way. In the colorants category, our brands Palette, Natural & Easy and Brilliance performed well. We have extended the Brilliance range with a new Brilliance toner. Also under the Brilliance brand, we launched the subline Luminance designed to provide dark hair with an intensive shine and a range of in-vogue colors. We expanded the product family marketed under the Diadem brand through the launch of a permanent-color roots retoucher. In the hair care segment, we concentrated on the activities of Gliss Kur and Schauma. As part of the Gliss Kur Repair line, we launched a new concept onto the market under the name Repair 19. In addition, we introduced under the Gliss brand our Repairist Kit, the first 3-stage hair treatment for home use comprising a shampoo, a treatment lotion and a gloss finish. In line with the trend toward intensive care, we augmented the Schauma range with a new variant in the form of



Schauma Repair & Care. In the styling segment, we revamped the Taft brand and also the trend styling brand Taft Looks. Our new gel innovation Taft Titane performed very successfully. The European roll-out of got2b was further extended in 2006.

We were successful in further developing our *body care* business. Our Fa brand posted strong sales growth with the innovations Fa Yogurt and Fa Asia Spa. Additional impetus was provided by the range and design relaunch of our deodorants. The Dial brand was able to further expand its position in the North American body wash market thanks particularly to the successful introduction of the Dial for Men line. Our activities in North America were also extended through the acquisition and successful integration of the Gillette brands already mentioned.

In the *skin care* business, we introduced a new generation of anti-aging care products in the form of Diadermine Global Action 9, formulated to combat all the signs of skin aging. Within the skin creams category, our Diadermine Lift+ continued to perform well.

In the *oral care* segment, we achieved good results with our Theramed dispensers and also with our new Theramed 2in1 3D Clean, formulated to provide antibacterial cleaning action for the teeth, gums and tongue.

In the *hair salon* business, we concentrated our activities on the relaunch of the colorant Igora Royal and our styling brand OSiS. New pigments and care substances incorporated into the Igora Royal range served to optimize color uniformity, coverage and intensity while also offering good miscibility. The OSiS brand underwent substantial further development with product and packaging innovations aligned to its creative brand core. The BC Bonacure brand continued to show very positive development in the year

under review. Following the revamp of the brand as a "Hairtherapy" product in 2005, this year we extended the range through the inclusion of the two product series BC Sun and BC Men. We further developed the Indola brand through the introduction of Innova, a new care and styling line.

### Capital expenditures

The investment focus in 2006 was on measures to optimize our structures and processes. We continued our work in reorganizing our production activities in Asia and developing further production structures in Russia. In total, expenditures on property, plant and equipment for the year amounted to 49 million euros compared to 45 million euros in 2005.

### Outlook

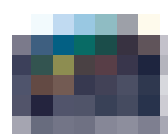
We expect the world cosmetics market of relevance to us to expand by around 2 percent in 2007. North America and Eastern Europe are likely to be the growth drivers for our business. Market expansion in Western Europe is expected to be limited, with competition remaining intensive.

We expect organic sales growth in 2007 to be above the market average. Our objective is to expand our market positions, particularly in Europe and North America. The core of our growth strategy is provided by our ongoing innovation offensive. We again expect to achieve an increase in operating profit.

We see opportunities primarily arising from our participation in the disproportionate expansion of the markets of Eastern Europe and Latin America, and in further reducing our production, supply chain and administration costs. The risks lie in increasing competition in what are already highly competitive markets, and in additional raw material price increases.



  
DIADERMINE



IGORA

Our brands excel thanks to

# Innovation, Quality, Trust and Added Value

Professional and private users appreciate all the benefits that Ceresit brings – it's easier, safer, suitable for a wider range of applications, offers higher quality and can be relied upon to produce exactly the right results – both indoors and out.  
Example: the dust-reduced tile adhesive Ceresit CM 90

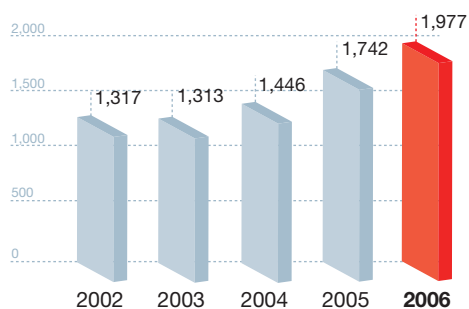


# Ceresit

# Consumer and Craftsmen Adhesives

## Key financials<sup>1)</sup>

Sales in million euros



<sup>1)</sup> calculated on the basis of units of 1,000 euros

in million euros	2005	2006	Change
Sales	1,742	1,977	13.5 %
Proportion of Henkel sales	15 %	16 %	1 pp
Operating profit (EBIT)	185	209	13.0 %
Return on sales (EBIT)	10.6 %	10.6 %	–
Return on capital employed (ROCE)	15.6 %	16.9 %	1.3 pp
EVA <sup>®</sup>	55	85	55.9 %

pp = percentage points

## Organic sales growth of 7.8 percent

## Operating profit increased by 13.0 percent

## ROCE raised to 16.9 percent

### Economic environment and market position

The dynamics of the markets served by the Consumer and Craftsmen Adhesives business sector remained largely unchanged in 2006. Although world market growth averaged around 3 percent, substantial regional differences again occurred. Continuing stagnation in our traditional core markets in Western Europe contrasted with strong growth in Eastern Europe and Asia. The highest growth rates occurred in the construction-related market segments.

The process of consolidation within the competitive environment continued through 2006. Due to the fragmentation of the competition and the high level of importance of local suppliers, there were more takeovers by major, internationally active corporations.

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

### Business activity and strategy

The business sector focuses on the two market segments adhesives and adhesive tapes for home, school and office; and adhesives and sealants for construction, DIY and craftsmen. The Henkel product range in these categories covers all the relevant problem solutions

for bonding and sealing in both internal and external building applications. With differentiated products for home and professional users, we can therefore offer the market a truly comprehensive portfolio.

Our activities in the market for adhesives and adhesive tapes for home, school and office are aligned to our extensively established international brands Pritt (bonding and correction) and Loctite (cyanoacrylates). Expansion in these businesses is primarily organic, driven by innovation and ongoing internationalization.

In the case of our adhesives and sealants for construction, DIY and craftsmen, by far the greatest market potential is in the market segment serving professional users, i.e. craftsmen. Consequently, expansion of this segment is of particular importance for us. In addition, a strong position in the craftsmen market provides us with a competitive advantage in the DIY business. In many emerging economies, moreover, there is still no significant DIY market. Expansion in these markets can therefore only be achieved via the craftsmen business. In keeping with the dual growth strategy pursued over the years, organic business expansion will continue

### Sales development in percent

	2006
Change versus previous year	13.5
Foreign exchange	0.3
After adjusting for foreign exchange	13.2
Acquisitions/Divestments	5.4
Organic	7.8

to be supplemented by selective acquisitions. Major acquisitions in the year under review included Alba Adesivos, the market leader for craftsmen adhesives in the important Brazilian market, and the Cimsec business with which we have further expanded our position in the strategically important tile adhesives segment in Austria and the neighboring markets in Eastern Europe.

The market segments served by cyanoacrylates, modern assembly adhesives, sealants and building adhesives are particularly attractive for Henkel. We will therefore be providing these areas with above-average levels of investment.

We intend to further expand our businesses in the growth regions outside Western Europe with the focus on Eastern Europe, Asia and Latin America, North Africa and the Middle East. We are able to call upon proven business models enabling initial market entry and subsequent expansion of our activities in such regions. Here, the acquisition of strong local suppliers and the involvement of local partners constitute important elements of our approach.

Gaining innovation leadership in the market segments that we serve is a key strategic objective. Our ability to effectively identify individual customer needs provides the basis for the development of new, market-aligned solutions, and we therefore place high priority on the associated research. In our product development activities, we share common technology platforms with Henkel Technologies.

### Sales and profits

Sales underwent an encouraging increase of 13.5 percent to 1,977 million euros in the year under review. We succeeded in increasing organic sales by 7.8 percent, enabling us once again to grow significantly faster than the market in 2006.

The main driver of our organic growth was once again Eastern Europe; however, our businesses in Latin America, Asia and the Middle East also performed well above average. Growth in Western Europe, on the other hand, was lower due to market conditions. In North America, our performance was influenced by weakening demand.

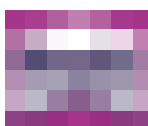
The high increases in the costs of raw materials and packaging in 2005 were followed in 2006 by further – although less strident – rises. We responded to these developments with price increases of our own, albeit implemented with a degree of delay. In addition, we invested in marketing activities and in the sales organizations serving our growth markets. Through these measures, we achieved above-average growth while also enhancing our future competitiveness. Consequently, we were able to increase operating profit (EBIT) by 13.0 percent to 209 million euros. As in the previous year, return on sales was 10.6 percent. Thanks to further net working capital optimization, we succeeded in increasing return on capital employed (ROCE) to 16.9 percent compared to 15.6 percent for the previous year.

### Market segments

One of the priorities in the *adhesives and adhesive tapes for home, school and office* segment lay in updating the entire range of cyanoacrylates on an international scale with substantially improved product formulations. With a globally standardized advertising campaign accompanied by a comprehensive range of sales promotion activities, we successfully strengthened this product group, uniformly marketed under the Loctite brand, enabling us to substantially extend its position as an international leader. The performance of our paper adhesives and correction products marketed under the Pritt brand was influenced by difficult market conditions.



**Ceresit**



**LOCTITE**





In the *adhesives and sealants for construction, DIY and craftsmen* segment, we further expanded our sealants business in line with our strategy. We were able to quickly integrate the Rhodia sealants business, acquired at the end of 2005, into our existing European activities. Moreover, using the technology acquired from Rhodia, we developed new and innovative sealing products and introduced these into the market.

Adhesives and sealants based on the Henkel-owned FLEXTEC technology were further established internationally in the year under review. FLEXTEC products are characterized by their high performance, universal suitability and easy application, and are hence superior to conventional products. We will further expand our FLEXTEC-based range and roll out the associated products to other countries.

Our building adhesives business once more performed very well, with the strongest impetus again coming from Eastern Europe where we have now opened additional production facilities. Further factories are under construction as we endeavor to meet the rapidly increasing demand for our products. In the case of our fastest-selling building adhesives line, namely our tile adhesives, we have set new standards in the market with the introduction of a new, dust-reduced product. With up to 90 percent less dust being produced during usage, it ensures cleaner handling and better user protection.

Our building heat insulation product systems likewise underwent dynamic growth in Eastern Europe during the year under review. Such solutions can also be applied in modified form for insulating buildings in hot climates in order to reduce the energy consumption caused by air-conditioning systems. In this new, attractive market segment, we achieved our first successes in the Gulf region.

### Capital expenditures

Our capital expenditures in 2006 focused on the creation of new production capacities in the growth markets outside Western Europe. In addition, we purposefully improved the competitiveness of our existing sites. At 58 million euros, investments in property, plant and equipment were above the 2005 figure of 50 million euros.

### Outlook

We expect market growth in 2007 to be around 3 percent.

We anticipate a slight upturn in our traditional European core markets. For North America, on the other hand, we foresee the market downturn encountered in the second half of 2006 continuing, with the construction-related businesses likely to be particularly affected.

We do not expect any sustained relaxation in the prices for raw materials and packaging but anticipate lower rates of increase than in 2006.

We expect organic sales growth in 2007 to be above the market average. We foresee a further increase in operating profit with measures for reducing manufacturing cost, optimizing our overhead expense structure and pro-active portfolio management making a positive contribution. One of the priorities for 2007 will be to achieve further improvements in net working capital.

We see opportunities emanating in particular from ongoing business expansion in the growth regions, our planned product launches and potential supplementary acquisitions. Risks relate to future upward movements in raw material prices, the possibility of ongoing negative trends in the North American housing construction market, and increased competitive pressures arising from further market consolidation.



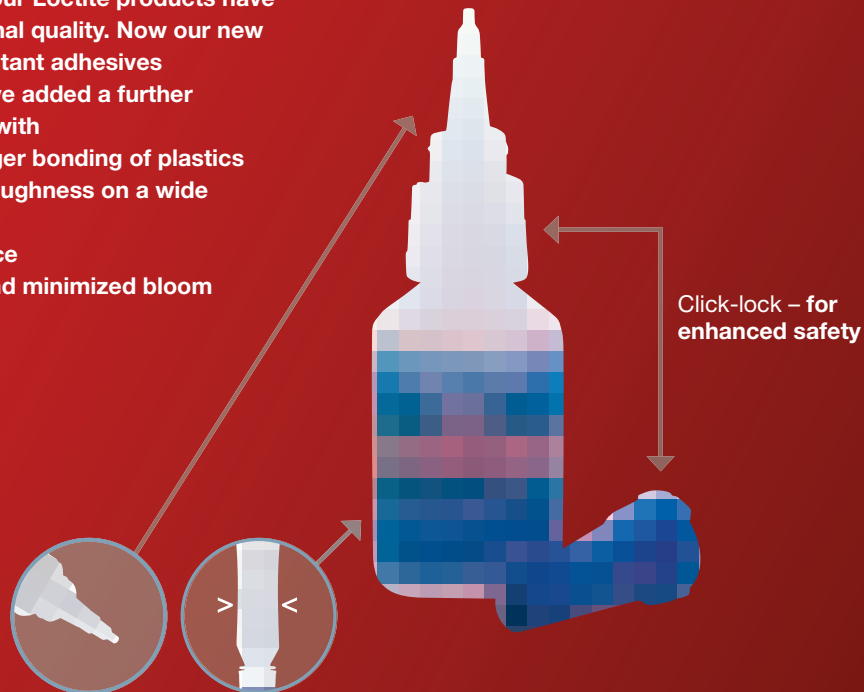
Our brands excel thanks to

# Innovation, Quality, Trust and Added Value

## Loctite® Instant Adhesives – bond in seconds

For more than 50 years, our Loctite products have been delivering exceptional quality. Now our new generation of Loctite® instant adhesives – developed in 2006 – have added a further dimension in excellence with

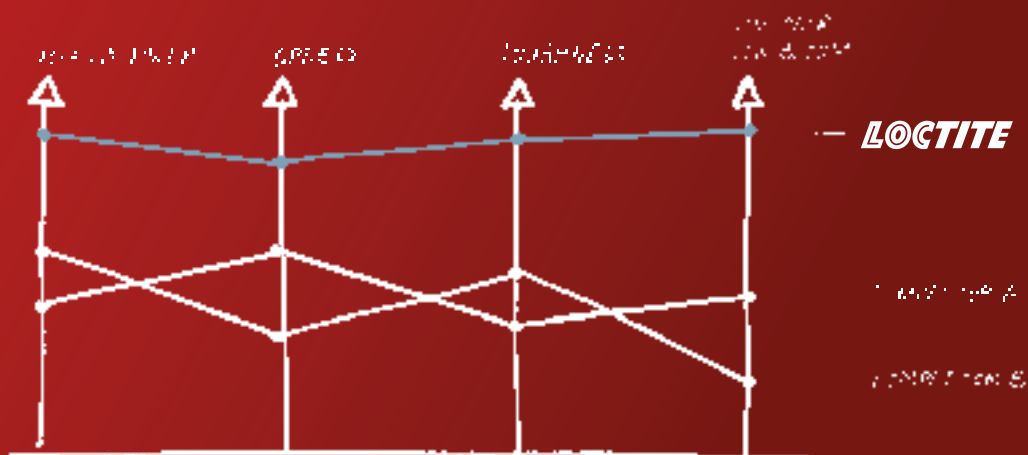
- even faster, even stronger bonding of plastics
- bonds of even higher toughness on a wide variety of materials
- outstanding convenience
- low-odor application and minimized bloom



New nozzle – for precise and controlled application

High elasticity with exceptional product metering control – easy-squeeze bottle

The superiority of the Loctite range derives from outstanding product quality

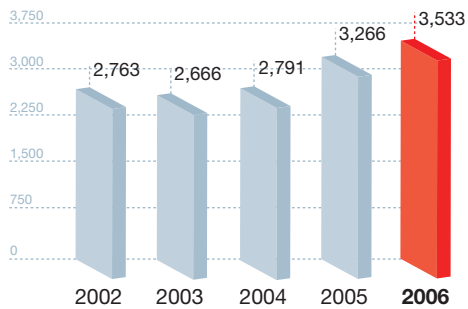




# Henkel Technologies

## Key financials<sup>1)</sup>

Sales in million euros



<sup>1)</sup> calculated on the basis of units of 1,000 euros

in million euros	2005	2006	Change
Sales	3,266	3,533	8.2 %
Proportion of Henkel sales	27 %	28 %	1 pp
Operating profit (EBIT)	345	370	7.2 %
Return on sales (EBIT)	10.6 %	10.5 %	-0.1 pp
Return on capital employed (ROCE)	14.7 %	15.4 %	0.7 pp
EVA <sup>®</sup>	86	129	49.1 %

pp = percentage points

## Organic sales growth of 8.9 percent

## Operating profit increased by 7.2 percent

## ROCE raised to 15.4 percent

### Economic environment and market position

The markets of relevance for Henkel Technologies involving adhesives, sealants and surface treatment products for industrial applications once again underwent positive development in 2006. Ongoing improvements in the performance of bonding and sealing technologies further consolidated the trend toward replacement of mechanical fixing and conventional joining techniques with such systems.

In the year under review, the market grew by around 3 percent overall, with all our segments showing positive progress. As in the previous year, growth in the electrical engineering and electronics industries was above average. The paper and packaging industries underwent significant expansion and there was also a further increase in global automobile production, with particularly strong growth in the Asian market. While the metals industry was only able to expand to a small degree, the markets for consumer durables and industrial maintenance, repair and overhaul solutions exhibited high growth rates.

Henkel Technologies occupies a leading market position which we further consolidated in 2006 by once again achieving an organic growth rate well above the market average.

### Business activity and strategy

Henkel Technologies offers adhesives, sealants and surface treatment products for a wide range of sectors, industries and specific engineering applications. Our approach is to combine our advanced technologies in devising tailor-made solutions for our customers. Our global presence and comprehensive product portfolio enable us to provide a full range of services to our internationally active customers. We are continuously extending our leading market positions in high-growth markets – particularly in Eastern Europe and Asia – through regional expansion based on organic growth and selected acquisitions. Our above-average performance – particularly in the fields of research and development, production and process technology, supply chain management and marketing, selling and distribution – provide the cornerstone for our close and durable customer relationships.

### Sales development in percent

	2006
Change versus previous year	8.2
Foreign exchange	-0.1
After adjusting for foreign exchange	8.3
Acquisitions/Divestments	-0.6
Organic	8.9

### Sales and profits

In the year under review, the Henkel Technologies business sector increased sales by an encouraging 8.2 percent to 3,533 million euros. This is primarily attributable to strong organic growth amounting to 8.9 percent. With double-digit growth rates, Eastern Europe, Latin America and Asia-Pacific continued to develop particularly well. However, we also achieved good growth in Western Europe and North America. Operating profit rose by 7.2 percent to 370 million euros, thanks largely to the strong organic increase in sales. Due to further increases in the cost of our raw materials and the tense situation affecting North America's automobile manufacturers, return on sales remained at 10.5 percent, the level posted in the previous year.

Of the 41 million euros in profits arising from the sale of our insulating glass sealant and rubber-to-metal bonding chemicals businesses, 30 million euros was utilized to expand our core businesses, to improve our procedures and processes and to reorganize our selling and distribution activities.

Return on capital employed (ROCE) increased by 0.7 percentage points to 15.4 percent, achieved through the increase in operating profit and a reduction in net working capital.

### Market segments

The *transportation* market segment continued to perform very well, with our automobile-related business expanding in all our regions. In the difficult North American automotive market, we were able to expand our business with the Asian manufacturers producing in that region. The new Teroson product line for sound insulation and our high-performance adhesives for bonding windshields in place proved to be successful. With another increase in aircraft production figures and more and more adhesives and sealants being used in aircraft construction, we were also able to further expand our business serving that industry.

Continuing high levels of demand for electronic components contributed to the growth of our business with the *electronics industry*. With our lead-free solder pastes, we were able to profit from a new EU directive promoting their application. In China, we expanded our production capacity with our joint venture, Huawei, and also extended our development center in Yantai.

In the *steel industry* we have specifically aligned our activities toward the trend favoring more environmentally compatible products. Our innovative chrome-free coating and passivation products under the Granocoat brand showed highly promising development. We also benefited from strong growth in the Asian market.

**Adhesin®**



**Bonderite®**

Once again, we posted encouraging growth in the *consumer durables* market segment, especially with our innovative products such as Bonderite NT for metal pretreatment applications. Further contributions came from our innovative polyurethane hotmelt adhesives under the Purmelt brand and our 3D dispersion adhesives formulated for the woodworking and furniture industries.

Our business with packaging for the *consumer goods* segment continued to perform well, driven by a new generation of Liofol laminating adhesives with reduced solvent content and improved curing behavior.

Demand for our products serving the *industrial maintenance, repair and overhaul* segment remained very high. The global relaunch of our instant adhesives under the Loctite brand contributed to disproportionate growth. With the Loctite University, we now offer our customers and distributors a web-based information and training platform specifically aligned to our products.

### Capital expenditures

Our investments are primarily aligned to improving our manufacturing processes and strengthening our presence in the growth markets.

We made considerable progress in improving efficiency on the basis of a number of individual projects. At our Düsseldorf site, for example, we succeeded in implementing a single, central monitoring and control system serving spatially separated production lines. In our new Asian headquarters in Shanghai, we are in the process of establishing a modern research and training

system which, as a competence center, will effectively increase our competitiveness in the region.

Investments in property, plant and equipment for 2006 totaled 149 million euros compared to 140 million euros in 2005.

### Outlook

We expect market growth to again be around 3 percent in 2007. We also anticipate that our individual segments will undergo developments similar to those encountered in 2006.

We expect raw material prices to remain high, although the rates of increase are likely to be lower than in 2006. Because we have not been able to fully compensate for the rapid and high increases in raw material prices that have taken place in recent years, we intend to further adapt our own prices in 2007. In addition, we are endeavoring to further optimize our formulations, taking account of new raw materials as they become available.

We expect organic sales growth in 2007 to again be above the market average, accompanied by another increase in operating profit.

We see opportunities in the further substitution of existing mechanical fixing and joining technologies by adhesive bonding, and in even faster rates of market growth in Asia and Eastern Europe. We see risks arising in the likely future development of raw material prices and in the possibility of a general slowdown in economic activity.




## 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. As opportunity and risk are essentially the two sides of entrepreneurial endeavor, opportunities generally arise from a complementary view of the operational and functional risk structure arising in all risk categories. Consequently, we are able both to minimize potential exposure at an early stage and to specifically target and effectively exploit identified opportunities. Our opportunity and 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 2006 financial audit, the auditors examined the structure and function of the 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 scope of which risks and opportunities are systematically identified, documented and evaluated. The 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.

We regularly analyze the development of inventoried risks and the efficiency of risk management measures in a separate risk control process 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 Company.

### Disclosure of Major Individual Risks

The following explains in more detail the main individual risks and risk categories identified within the overall exposure as represented by the risk inventory. Relevant opportunities together with relevant risks are described in the "Outlook" section on page 68 and in the individual business sector reports starting on page 51 in this Group Management Report.

**Economic and sector-specific risks:** Our business development is influenced not least by the dynamics of the world economy. Consequently, economic developments and long-term trends relating to relevant regions are continuously analyzed. Our appraisal of these underlying worldwide trading conditions and the immediate prospects for the future are indicated on page 68.

Also of substantial importance for our business sectors are developments affecting the consumer goods market and also the automotive, electronics, steel, metals and construction industries. Sector-specific risks and opportunities are separately discussed on page 68 and also in the business sector reports starting on page 51.

**Research and technology risks:** We minimize our research and technology risks through 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 sound product composition. In addition, our safety and environmental standards lay down Group-wide, parameter-based criteria for ensuring the high quality of our products.

In view of the redrafting of the new European legislation regarding the registration, evaluation and autho-

rization of chemicals (REACH), we have already aligned our existing processes to future requirements – as far as currently known – in order not least to minimize the ensuing additional costs.

**Innovation processes:** Innovative products constitute a major factor governing the success of our Company. Through comprehensive marketing analyses, taking into particular account customer requirements, and through modern methods of innovation management, we ensure that the risks are minimized and that the corresponding chances of a successful product launch are maximized. In this process, we are able to rely on a professional idea management process and also carefully conducted laboratory tests.

**Investment risks:** Decisions relating to capital spending on property, plant and equipment are aligned to defined, differentiated responsibility matrices and approval procedures that incorporate all the relevant specialist functions and are regulated in an internal code of practice. This requires that capital expenditures be analyzed in advance on the basis of a detailed risk appraisal. Further auditing and analytical exercises accompanying projects at the implementation stage provide the basis for successful project management and effective risk reduction.

**Acquisition risks:** Acquisition decisions are essentially made on the basis of a comprehensive risk analysis and in line with procedures specified in our corporate standards. In complex transactions, risks can arise due to laws and statutory instruments relating, for example, to tax, competition, monopolies and the environment. To counteract 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. This also applies to divestments.

**Procurement market risks:** In the procurement market, pro-active control of our vendor portfolio, and our globally active, cross-divisional purchasing management system contribute considerably to reducing risk. We operate a strict policy of remaining independent of

individual suppliers so as to better secure the constant availability of the goods and services that we require. We enter into strategic partnerships with suppliers of important and price-sensitive raw materials in order to minimize the concomitant price risks. The basis for successful risk management in this domain is provided by a comprehensive procurement information system that ensures permanent transparency of our purchasing volumes. We also maintain interdisciplinary teams (research and development, supply chain management and purchasing), the remit of which is to devise alternative formulations and to develop different forms of packaging in order to be able to respond to unforeseen fluctuations in raw material prices.

**Production risks:** Risks in the field of production are minimized by ensuring a high level of employee qualification, establishing clearly defined safety standards and carrying out regular plant and equipment maintenance. The negative effects of possible production failures can be offset through flexible production control and are covered by economically feasible insurance policies.

**Credit risks:** Having instituted our global credit policy, we minimize bad debt and the loss of receivables through standardized procedures, a pro-active credit management regime and the use of payment default insurance policies and guarantees. Aside from detailed local monitoring, we also monitor our key customer relationships at the global level.

**Personnel risks:** The future economic development of Henkel is essentially secured by the commitment and capabilities of our employees. We respond to 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.

**IT/data security risks:** Henkel has put in place a globally binding internal IT code of practice to which

our external service-providers are also bound. Major components of this code include measures for avoiding risk, an appraisal of escalation processes and a description of best-practice technologies. Correct implementation is continuously monitored by our globally active Internal Audit function. In addition, our safeguards are examined for their efficacy and efficiency by independent, external specialists. Daily data back-up operations are conducted to shadow all critical stocks of data, and the resultant files are transferred to another site. Regular restore tests are also carried out. Appropriate approval procedures, authorization profiles and technologies are deployed in order to ensure regulated access to our IT systems. The external attacks that occurred in 2006, e.g. in the form of viruses, attempts at hacking and spamming campaigns, resulted in no disruptions to our business processes because they were successfully repelled by the implemented safety systems and safeguards.

**Financial risks:** Interest, currency and liquidity risks are centrally controlled by Corporate Treasury on the basis of a pro-active management regime. The basis of this control capability is provided by the treasury guidelines introduced by the Management Board which are binding on the entire corporation. Defined in these are the targets, principles, competences and jurisdictions of Corporate Treasury. They describe the fields of responsibility and establish the distribution of these responsibilities between the corporate level on the one hand and the subsidiaries on the other. The trading, controlling and handling functions are spatially and organizationally separated. Our clear regulations on handling financial risks constitute an important component of Henkel's financial strategy, by which all the financial risks and the liquidity of our subsidiaries are centrally controlled. We deploy derivative financial instruments exclusively for hedging purposes. Additional information on derivatives and other financial instruments, and also the systems applied for risk control are explained in Note 37 to the Consolidated Financial Statements.

In order to minimize credit risk, we select as our contract partners only those German and international banks that, in compliance with the treasury guidelines of Henkel, are regularly scrutinized for creditworthiness and the accuracy of their listings. In addition, a limit management regime is in place in order to minimize the risk arising from the failure of a bank.

The liquidity risk affecting the Company can be regarded as minimal due to the use of long-term financing instruments and the availability of additional liquidity reserves in the form of credit lines.

The global alignment of our three areas of competence results in two types of currency risk: transaction risks and translation risks. Transaction risks arise from exchange rate fluctuations causing changes in the value of future foreign currency cash flows with respect to individual company financial statements. Transaction risks arising from our operating business are actively managed by Corporate Treasury. This pro-active approach includes assessment of the specific currency risk and the development of a coordinated hedging strategy. Negative impact on profits is restricted by strict limitation of potential losses. The transaction risk arising from financial items is 100 percent hedged. Translation risks emanate from the changes in a subsidiary's equity that can arise from foreign exchange fluctuations and the effect these have on the translation of local individual company financial statements into Group currency. The risks arising from the translation of sales and profits of subsidiaries in foreign currencies, and from net investments in foreign entities, are only hedged in exceptional cases.

The interest risk encompasses those potentially positive or negative influences on profits, shareholders' equity or cash flow for current or future reporting periods arising from changes in interest rates. The strategic deployment of interest-bearing financial instruments with the objective of optimizing the net interest result for the Henkel Group constitutes an important component of our financial policy. To this end, we control the maturity structure both by choosing appro-



priate fixed-interest periods for the original financial assets and financial liabilities affecting liquidity, and by using interest rate derivatives, predominantly interest rate swaps. The interest rates both on the bond for 1.0 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.

**Pension obligations:** Pension entitlements are predominantly financed by separate, external pension funds. Major pension funds are managed in Germany, the USA, the UK, Ireland and the Netherlands by external fund managers. The investment funds allocated to cover our pension obligations in Germany are determined on the basis of an asset-liability study. Here, the investments are structured so that the risks arising from interest rate changes affecting the level of pension liabilities are reduced by the expected further development of the interest- and yield-bearing assets. The assets allocated in the form of shares and trust units can impact on the developing value of the pension fund in the event of adverse movements in the stock markets. Account is taken of this risk by ensuring a wide diversification of our investment portfolio.

**Legal risks:** As a globally active corporation, we are also exposed in the course of our ordinary business activities to a range of risks relating to litigations in which we are currently involved or may be involved in the future. These include, in particular, risks arising from the fields of product liability, product defects, laws relating to competition and monopolies, the infringement of proprietary rights, and environmental protection. There are currently no risks arising from litigations either pending or threatened that could have a material influence on our financial position.

We counteract legal risks through corresponding binding guidelines, codes of conduct and training measures. We address current actions and potential litigation risk by maintaining constant contacts between the corporate legal department and local attorneys, and also through our separate reporting system. For certain legal risks, we have taken out insurance policies that are standard for the industry and that we consider to be adequate. We form provisions for litigations to the extent that it is likely in our estimation that obligations may arise which are either not covered or not fully covered by our insurance policies and where a reasonably accurate estimate of the loss involved is possible. Nevertheless, losses can arise from litigations that are not covered by our insurance policies or our provisions.

#### Overall Risk

At the time of writing this report, there are no identifiable risks relating to further 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.

## Outlook for the Henkel Group

### Underlying Conditions

#### World Economy

The rate of expansion in the world economy is likely to ease slightly compared to 2006, with the differences in the growth rates between the individual regions also further declining.

We expect the USA and Europe to grow at roughly the same rate. Overall, the outlook for Western Europe remains favorable, and we also expect the growth in Germany to continue.

There is likely to be a slight decline in the dynamics of the growth regions such as Eastern Europe, Asia and Latin America, although their development will continue to be very favorable.

We anticipate a further slight increase in raw material prices, to which we will respond with price increases of our own. In our estimate, the euro is likely to further appreciate slightly with respect to the US dollar. We anticipate interest rates to remain stable in the USA and to increase slightly in Europe.

#### Sector Developments

We expect private consumption in Western Europe to undergo a further positive development. Consumers in the USA are, on the other hand, likely to be more reluctant in their spending as compared to 2006.

We expect world automotive output to experience another increase, particularly in the growth regions.

The electronics industry is likely to undergo further expansion, albeit to a lesser degree than in 2006.

We similarly expect the machine construction and the metalworking industries to return to moderate growth. The paper and packaging industry will again provide positive momentum in this coming year. We anticipate that developments in the US construction industry will stabilize in the course of the year, while

Eastern Europe is likely to generate strong momentum within Europe as a whole. Given the strength of 2006, we anticipate that the German construction industry will ease back into stagnation in 2007.

#### Opportunities and Risks

Opportunities arise from the generally favorable world economic conditions and the primary trends affecting our business segments. Our stronger focus on innovation and our expanding presence in the dynamically developing growth markets should provide our businesses with further impetus.

Risks for our businesses may arise in the event that raw material prices increase by an unexpectedly high degree and also from further consolidation at the customer level. A further risk lies in the possibility of rising competition leading to a requirement for higher investments in our markets.

Further specific opportunities and risks are discussed in the individual business sector reports.

### Sales and Profits Forecast for 2007

Henkel expects to achieve organic sales growth (i.e. after adjusting for foreign exchange and acquisitions/divestments) of 3 to 4 percent in 2007.

We expect an increase in operating profit (EBIT) – adjusted for foreign exchange – in excess of organic sales growth.

We likewise expect an increase in earnings per preferred share (EPS) in excess of organic sales growth.

### Long-term Sales and Profits Forecast

We also expect to generate a rate of organic sales growth in excess of the market average in the coming years, with operating profit (EBIT) and earnings per preferred share (EPS) rising faster than sales.



# Subindex

## Post-Closure Report

We announced the closure of our Spanish cosmetics site in La Coruña to employee representatives at the end of December 2006 and to the workforce at the beginning of January 2007.

At the end of January, Henkel North America decided to analyze the effectiveness and efficiency of the processes in the finance, personnel and purchasing departments and to take appropriate measures as a result. The investigation will also examine the concentration of activities in Shared Service Centers and review the relocation of appropriate sites outside North America, including site closures.

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# Consolidated Statement of Income

in million euros

	Note	2005 <sup>1)</sup>	2006
<b>Sales</b>	1	<b>11,974</b>	<b>12,740</b>
Cost of sales	2	-6,549 <sup>1)</sup>	-6,963
<b>Gross profit</b>		<b>5,425</b>	<b>5,777</b>
Marketing, selling and distribution costs	3	-3,411 <sup>1)</sup>	-3,650
Research and development costs	4	-324	-340
Administrative expenses	5	-633 <sup>1)</sup>	-697
Other operating income	6	183	298
Other operating charges	7	-78	-90
<b>Operating profit (EBIT)</b>		<b>1,162</b>	<b>1,298</b>
Net income from associated companies		72	83
Net result from other investments		18	-29
<b>Investment income</b>		<b>90</b>	<b>54</b>
Interest income		70	71
Interest expense		-280	-247
<b>Net interest</b>		<b>-210</b>	<b>-176</b>
<b>Financial items</b>	8	<b>-120</b>	<b>-122</b>
<b>Earnings before tax</b>		<b>1,042</b>	<b>1,176</b>
<b>Taxes on income</b>	9	<b>-272</b>	<b>-305</b>
<b>Net earnings</b>		<b>770</b>	<b>871</b>
Minority interests	10	-13	-16
<b>Earnings after minority interests</b>		<b>757</b>	<b>855</b>

<sup>1)</sup> Current restructuring costs from 2005 have been allocated proportionately to the relevant functions. See commentary on page 78.

## Earnings per share (basic) in euros

	Note	2005	2006
Ordinary shares	43	5.25	5.92
Non-voting preferred shares	43	5.31	5.98

## Earnings per share (diluted) in euros

	Note	2005	2006
Ordinary shares	43	5.25	5.92
Non-voting preferred shares	43	5.28	5.94

# Consolidated Balance Sheet

## Assets in million euros

	Note	2005	2006
Intangible assets	11	5,660	5,487
Property, plant and equipment	12	2,045	2,078
Shares in associated companies		530	496
Other investments and long-term loans		151	69
Financial assets	13	681	565
Other non-current assets	14	223	171
Deferred tax	15	456	363
<b>Non-current assets</b>		<b>9,065</b>	<b>8,664</b>
Inventories	16	1,232	1,325
Trade accounts receivable	17	1,794	1,868
Other current receivables and miscellaneous assets	18	378	436
Current tax assets		121	110
Liquid funds/Marketable securities	19	1,212	929
Assets held for sale	20	142	14
<b>Current assets</b>		<b>4,879</b>	<b>4,682</b>
<b>Total assets</b>		<b>13,944</b>	<b>13,346</b>

## Shareholders' Equity and Liabilities in million euros

	Note	2005	2006
Subscribed capital	21	374	374
Capital reserve	22	652	652
Revenue reserves	23	4,764	5,362
Gains and losses recognized in equity	24	-419	-901
<b>Equity excluding minority interests</b>		<b>5,371</b>	<b>5,487</b>
Minority interests	25	28	60
<b>Equity including minority interests</b>		<b>5,399</b>	<b>5,547</b>
Pensions and similar obligations	26	1,061	788
Other long-term provisions	27	427	294
Long-term borrowings	28	2,400	2,322
Other non-current liabilities	29	59	126
Deferred tax	30	473	427
<b>Non-current liabilities</b>		<b>4,420</b>	<b>3,957</b>
Short-term provisions	31	932	992
Short-term borrowings	32	1,405	1,012
Trade accounts payable	33	1,333	1,494
Other current liabilities	34	455	344
<b>Current liabilities</b>		<b>4,125</b>	<b>3,842</b>
<b>Total equity and liabilities</b>		<b>13,944</b>	<b>13,346</b>

# Consolidated Cash Flow Statement

**See Note 44**

in million euros

	2005	2006
<b>Operating profit (EBIT)</b>	<b>1,162</b>	<b>1,298</b>
Income taxes paid	-265	-259
Amortization/depreciation/write-ups of non-current assets (excluding financial assets)	334	350
Net gains/losses on disposal of non-current assets (excluding financial assets)	-6	-94
Change in inventories	29	-147
Change in receivables and miscellaneous assets	123	-186
Change in liabilities and provisions	-123	169
<b>Cash flow from operating activities</b>	<b>1,254</b>	<b>1,131</b>
Purchase of intangible assets	-43	-47
Purchase of property, plant and equipment	-393	-431
Purchase of financial assets/acquisitions	-85	-400
Proceeds on disposal of subsidiaries and business units	-	200
Proceeds on disposal of other non-current assets	43	132
<b>Cash flow from investing activities/acquisitions</b>	<b>-478</b>	<b>-546</b>
Henkel KGaA dividends	-181	-190
Subsidiary company dividends (to other shareholders)	-9	-12
Interest received	71	70
Dividends received	20	25
Interest paid	-268	-294
<i>Dividends and interest paid and received</i>	-367	-401
Change in borrowings	214	-194
Allocation to Contractual Trust Arrangement (CTA)	-1,297	-188
Other financing transactions	-18	25
<b>Cash flow from financing activities</b>	<b>-1,468</b>	<b>-758</b>
<b>Change in cash and cash equivalents</b>	<b>-692</b>	<b>-173</b>
Effect of exchange rate changes on cash and cash equivalents	209	-110
<b>Change in liquid funds and marketable securities</b>	<b>-483</b>	<b>-283</b>
Liquid funds and marketable securities at January 1	1,695	1,212
Liquid funds and marketable securities at December 31	1,212	929

**Computation of free cash flow** in million euros

	2005	2006
Cash flow from operating activities	1,254	1,131
Purchase of intangible assets	-43	-47
Purchase of property, plant and equipment	-393	-431
Proceeds on disposal of subsidiaries and business units	-	200
Proceeds on disposal of other non-current assets	43	132
Dividends received/Net interest	-177	-199
<b>Free cash flow</b>	<b>684</b>	<b>786</b>

# Statement of Recognized Income and Expense

in million euros

	2005	2006
<b>Net earnings</b>	<b>770</b>	<b>871</b>
Foreign exchange effects	602	-486
Derivative financial instruments	-36	3
Actuarial gains/losses	-140	7
Other gains and losses recognized in equity	39	-9
Shares in associated companies	-	-83
<b>Gains and losses recognized directly in equity</b>	<b>465</b>	<b>-568</b>
<b>Total earnings for the period</b>	<b>1,235</b>	<b>303</b>
- Minority shareholders	21	44
- Equity holders of Henkel KGaA	1,214	259

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

See Notes 21 to 25

in million euros

	Ordinary shares	Preferred shares	Capital reserve	Revenue reserves	Gains and losses recognized in equity			Total
					Translation differences	Derivative financial instruments	Minority interests	
<b>At January 1, 2005</b>	<b>222</b>	<b>152</b>	<b>652</b>	<b>4,286</b>	<b>-995</b>	<b>13</b>	<b>16</b>	<b>4,346</b>
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
<b>At December 31, 2005/January 1, 2006</b>	<b>222</b>	<b>152</b>	<b>652</b>	<b>4,764</b>	<b>-396</b>	<b>-23</b>	<b>28</b>	<b>5,399</b>
Distributions	-	-	-	-190	-	-	-12	-202
Sale of treasury shares	-	-	-	47	-	-	-	47
Net earnings	-	-	-	855	-	-	16	871
Foreign exchange effects	-	-	-	-	-485	-	-1	-486
Derivative financial instruments	-	-	-	-	-	3	-	3
Actuarial gains (+) and losses (-)	-	-	-	7	-	-	-	7
Other gains and losses recognized in equity	-	-	-	-121	-	-	29	-92
<b>At December 31, 2006</b>	<b>222</b>	<b>152</b>	<b>652</b>	<b>5,362</b>	<b>-881</b>	<b>-20</b>	<b>60</b>	<b>5,547</b>

# Group Segment Information<sup>1)</sup> by Business Sector

**See Note 42**

in million euros

Business sectors	Laundry & Home Care	Cosmetics/ Toiletries	Consumer & Craftsmen Adhesives	Henkel Tech- nologies	Corporate	Henkel
<b>Sales 2006</b>	<b>4,117</b>	<b>2,864</b>	<b>1,977</b>	<b>3,533</b>	<b>249</b>	<b>12,740</b>
Change from previous year	0.7 %	8.9 %	13.5 %	8.2 %	–	6.4 %
Proportion of Group sales	32 %	22 %	16 %	28 %	2 %	100 %
Sales 2005	4,088	2,629	1,742	3,266	249	11,974
<b>EBITDA 2006</b>	<b>579</b>	<b>412</b>	<b>254</b>	<b>472</b>	<b>–69</b>	<b>1,648</b>
EBITDA 2005	550	371	224	452	–101	1,496
Change from previous year	5.3 %	11.2 %	13.1 %	4.4 %	–	10.2 %
<b>Return on sales (EBITDA) 2006</b>	<b>14.1 %</b>	<b>14.4 %</b>	<b>12.8 %</b>	<b>13.4 %</b>	<b>–</b>	<b>12.9 %</b>
Return on sales (EBITDA) 2005	13.5 %	14.1 %	12.9 %	13.8 %	–	12.5 %
<b>Amortization and depreciation of trademark rights, other rights and property, plant and equipment 2006</b>	<b>130</b>	<b>53</b>	<b>45</b>	<b>102</b>	<b>20</b>	<b>350</b>
<b>of which impairment losses 2006</b>	<b>7</b>	<b>6</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>16</b>
<b>of which write-ups 2006</b>	<b>1</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>1</b>
Amortization and depreciation of trademark rights, other rights and property, plant and equipment 2005	117	50	39	107	21	334
of which impairment losses 2005	3	–	1	8	1	13
of which write-ups 2005	3	–	4	–	–	7
<b>EBIT 2006</b>	<b>449</b>	<b>359</b>	<b>209</b>	<b>370</b>	<b>–89</b>	<b>1,298</b>
EBIT 2005	433	321	185	345	–122	1,162
Change from previous year	3.7 %	11.7 %	13.0 %	7.2 %	–	11.7 %
<b>Return on sales (EBIT) 2006</b>	<b>10.9 %</b>	<b>12.5 %</b>	<b>10.6 %</b>	<b>10.5 %</b>	<b>–</b>	<b>10.2 %</b>
Return on sales (EBIT) 2005	10.6 %	12.2 %	10.6 %	10.6 %	–	9.7 %
<b>Capital employed 2006<sup>2)</sup></b>	<b>2,955</b>	<b>2,328</b>	<b>1,239</b>	<b>2,409</b>	<b>24</b>	<b>8,955</b>
Capital employed 2005 <sup>2)</sup>	3,184	2,184	1,186	2,350	–167	8,737
Change from previous year	–7.2 %	6.6 %	4.5 %	2.5 %	–	2.5 %
<b>Return on capital employed (ROCE) 2006</b>	<b>15.2 %</b>	<b>15.4 %</b>	<b>16.9 %</b>	<b>15.4 %</b>	<b>–</b>	<b>14.5 %</b>
Return on capital employed (ROCE) 2005	13.6 %	14.7 %	15.6 %	14.7 %	–	13.3 %
<b>Capital expenditures (excl. financial assets) 2006</b>	<b>157</b>	<b>381</b>	<b>112</b>	<b>160</b>	<b>53</b>	<b>863</b>
Capital expenditures (excl. financial assets) 2005	158	53	356	493	37	1,097
<b>Operating assets 2006<sup>3)</sup></b>	<b>4,295</b>	<b>2,930</b>	<b>1,584</b>	<b>2,978</b>	<b>399</b>	<b>12,186</b>
<b>Operating liabilities 2006</b>	<b>1,174</b>	<b>783</b>	<b>408</b>	<b>848</b>	<b>375</b>	<b>3,588</b>
<b>Net operating assets employed 2006<sup>3)</sup></b>	<b>3,121</b>	<b>2,147</b>	<b>1,176</b>	<b>2,130</b>	<b>24</b>	<b>8,598</b>
Operating assets 2005 <sup>3)</sup>	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 <sup>3)</sup>	3,367	2,005	1,120	2,063	–167	8,388

<sup>1)</sup> calculated on the basis of units of 1,000 euros    <sup>2)</sup> including goodwill at acquisition cost    <sup>3)</sup> including goodwill at net book value

# Group Segment Information<sup>1)</sup> by Region

## See Note 42

in million euros

Regions	Europe/ Africa/ Middle East	North America (USA, Canada)	Latin America	Asia- Pacific	Corporate	Henkel
<b>Sales by location of company 2006</b>	<b>8,045</b>	<b>2,742</b>	<b>663</b>	<b>1,041</b>	<b>249</b>	<b>12,740</b>
Change from previous year	7.4 %	0.4 %	16.1 %	11.7 %	–	6.4 %
Proportion of Group sales	63 %	22 %	5 %	8 %	2 %	100 %
Sales by location of company 2005	7,490	2,733	571	931	249	11,974
<b>Sales by location of customer 2006</b>	<b>7,979</b>	<b>2,721</b>	<b>686</b>	<b>1,105</b>	<b>249</b>	<b>12,740</b>
Change from previous year	7.4 %	–	16.8 %	12.0 %	–	6.4 %
Proportion of Group sales	63 %	21 %	5 %	9 %	2 %	100 %
Sales by location of customer 2005	7,430	2,721	588	986	249	11,974
<b>EBITDA 2006</b>	<b>1,173</b>	<b>397</b>	<b>61</b>	<b>86</b>	<b>–69</b>	<b>1,648</b>
EBITDA 2005	1,048	435	46	68	–101	1,496
Change from previous year	11.9 %	–8.8 %	33.5 %	26.0 %	–	10.2 %
<b>Return on sales (EBITDA) 2006</b>	<b>14.6 %</b>	<b>14.5 %</b>	<b>9.2 %</b>	<b>8.3 %</b>	<b>–</b>	<b>12.9 %</b>
Return on sales (EBITDA) 2005	14.0 %	15.9 %	8.0 %	7.3 %	–	12.5 %
<b>Amortization and depreciation of trademark rights, other rights and property, plant and equipment 2006</b>	<b>216</b>	<b>76</b>	<b>18</b>	<b>20</b>	<b>20</b>	<b>350</b>
Amortization and depreciation of trademark rights, other rights and property, plant and equipment 2005	191	88	17	17	21	334
<b>EBIT 2006</b>	<b>957</b>	<b>321</b>	<b>43</b>	<b>66</b>	<b>–89</b>	<b>1,298</b>
EBIT 2005	857	347	29	51	–122	1,162
Change from previous year	11.7 %	–7.7 %	46.2 %	30.0 %	–	11.7 %
<b>Return on sales (EBIT) 2006</b>	<b>11.9 %</b>	<b>11.7 %</b>	<b>6.4 %</b>	<b>6.4 %</b>	<b>–</b>	<b>10.2 %</b>
Return on sales (EBIT) 2005	11.4 %	12.7 %	5.1 %	5.5 %	–	9.7 %
<b>Capital employed 2006<sup>2)</sup></b>	<b>3,272</b>	<b>4,562</b>	<b>449</b>	<b>648</b>	<b>24</b>	<b>8,955</b>
Capital employed 2005 <sup>2)</sup>	3,363	4,487	431	623	–167	8,737
Change from previous year	–2.7 %	1.7 %	4.2 %	4.1 %	–	2.5 %
<b>Return on capital employed (ROCE) 2006</b>	<b>29.3 %</b>	<b>7.0 %</b>	<b>9.5 %</b>	<b>10.2 %</b>	<b>–</b>	<b>14.5 %</b>
Return on capital employed (ROCE) 2005	25.5 %	7.7 %	6.8 %	8.2 %	–	13.3 %
<b>Capital expenditures (excl. financial assets) 2006</b>	<b>340</b>	<b>355</b>	<b>51</b>	<b>64</b>	<b>53</b>	<b>863</b>
Capital expenditures (excl. financial assets) 2005	353	626	15	66	37	1,097
<b>Operating assets 2006<sup>3)</sup></b>	<b>4,941</b>	<b>5,408</b>	<b>539</b>	<b>899</b>	<b>399</b>	<b>12,186</b>
<b>Operating liabilities 2006</b>	<b>2,204</b>	<b>608</b>	<b>111</b>	<b>290</b>	<b>375</b>	<b>3,588</b>
<b>Net operating assets employed 2006<sup>3)</sup></b>	<b>2,737</b>	<b>4,800</b>	<b>428</b>	<b>609</b>	<b>24</b>	<b>8,598</b>
Operating assets 2005 <sup>3)</sup>	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 <sup>3)</sup>	2,849	4,709	413	584	–167	8,388

<sup>1)</sup> calculated on the basis of units of 1,000 euros    <sup>2)</sup> including goodwill at acquisition cost    <sup>3)</sup> including goodwill at net book value



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

**Cost** in million euros

	Intangible assets	Property, plant and equipment	Financial assets	Total
<b>At January 1, 2005</b>	<b>4,907</b>	<b>4,855</b>	<b>1,061</b>	<b>10,823</b>
Changes in the Group/Acquisitions	564	100	-316	348
Additions	43	393	78	514
Disposals <sup>1)</sup>	-82	-244	-139	-465
Reclassifications	26	-26	-	-
Translation differences	631	207	15	853
<b>At December 31, 2005/January 1, 2006</b>	<b>6,089</b>	<b>5,285</b>	<b>699</b>	<b>12,073</b>
Changes in the Group/Acquisitions	352	21	-18	355
Additions	47	431	93	571
Disposals <sup>1)</sup>	-18	-258	-179	-455
Reclassifications	5	-5	-	-
Translation differences	-530	-147	-13	-690
<b>At December 31, 2006</b>	<b>5,945</b>	<b>5,327</b>	<b>582</b>	<b>11,854</b>
<sup>1)</sup> of which assets held for sale 2006	-	-10	-	-10
<sup>1)</sup> of which assets held for sale 2005	-72	-60	-	-132

**Accumulated amortization/depreciation** in million euros

	Intangible assets	Property, plant and equipment	Financial assets	Total
<b>At January 1, 2005</b>	<b>353</b>	<b>3,047</b>	<b>23</b>	<b>3,423</b>
Changes in the Group/Acquisitions	-	3	-	3
Write-ups	-	-7	-	-7
Scheduled amortization/depreciation	49	279	-	328
Impairment losses	9	4	4	17
Disposals <sup>1)</sup>	-10	-171	-10	-191
Reclassifications	-2	2	-	-
Translation differences	30	83	1	114
<b>At December 31, 2005/January 1, 2006</b>	<b>429</b>	<b>3,240</b>	<b>18</b>	<b>3,687</b>
Changes in the Group/Acquisitions	-1	3	-2	-
Write-ups	-	-1	-1	-2
Scheduled amortization/depreciation	53	282	-	335
Impairment losses	3	13	4	20
Disposals <sup>1)</sup>	-16	-220	-2	-238
Reclassifications	-	-	-	-
Translation differences	-10	-68	-	-78
<b>At December 31, 2006</b>	<b>458</b>	<b>3,249</b>	<b>17</b>	<b>3,724</b>
<sup>1)</sup> of which assets held for sale 2006	-	-5	-	-5
<sup>1)</sup> of which assets held for sale 2005	-	-19	-	-19

**Net book value** in million euros

	Intangible assets	Property, plant and equipment	Financial assets	Total
<b>At December 31, 2006</b>	<b>5,487</b>	<b>2,078</b>	<b>565</b>	<b>8,130</b>
At December 31, 2005	5,660	2,045	681	8,386

The impairment losses are allocated to the relevant functions.

## 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.

## Composition of the Group

In addition to Henkel KGaA, the consolidated financial statements at December 31, 2006 include 12 German and 195 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. Companies in which not more than half of the shares are held are fully consolidated if Henkel KGaA has the power, directly or indirectly, to govern their financial and operating policies.

The composition of the Group has changed in the course of 2006 compared with the previous year. Eight companies have been included in the consolidated Group figures for the first time, 15 companies were merged and 23 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 <sup>1)</sup>	First consolidated
<b>Consumer and Craftsmen Adhesives</b>			
Alba Ltda.	100	35	March 31, 2006
<b>Laundry &amp; Home Care, Cosmetics/Toiletries</b>			
Jasminal S.A.R.L.	66	13	Sep. 30, 2006

<sup>1)</sup> purchase price (49 million euros) plus debts assumed less cash and cash equivalents assumed (1 million euros)

On April 28, 2006, we acquired certain toiletry brands from Gillette under an asset deal. The purchase price for this business was 315 million euros. Of this amount, 178 million euros related to trademark rights and 8 million euros to property, plant and equipment. The goodwill arising on the acquisition was 129 million euros. In 2006, the business achieved sales of 129 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 and liabilities. 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 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 accounting 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 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.

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

	ISO code	Average exchange rate		Year-end exchange rate	
		2005	2006	2005	2006
British pounds	GBP	0.68	0.68	0.6853	0.6715
Swiss francs	CHF	1.55	1.57	1.5551	1.6069
Japanese yen	JPY	136.84	146.04	138.9000	156.9300
US dollars	USD	1.24	1.25	1.1797	1.3170

### 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 fiscal year. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are continually reviewed. The effect of a change in an accounting estimate is included in the period of the change if the change affects the period only, or in the period of the change and future periods, if the change affects both. The judgements of the Management Board regarding the application of those IFRS which have a significant impact on the consolidated financial statements are presented in the explanatory notes on taxes on income (Note 9), intangible assets (Note 11) and pensions and similar obligations (Note 26).

### Accounting standards not applied prior to their effective date

The following standards, interpretations and revisions to existing standards of relevance to Henkel have not been applied by Henkel prior to their effective date: IFRIC 8 "Scope of IFRS 2", amendments to IAS 1 "Presentation of Financial Statements re. Capital Disclosures", IFRS 7 "Financial Instruments: Disclosures", IFRIC 9 "Reassessment of Embedded Derivatives", IFRIC 10 "Interim Reporting and Impairment", IFRS 8 "Operating Segments", and IFRIC 11 "IFRS 2 – Group Treasury Share Transactions". We do not anticipate any significant impact on the presentation of the financial statements from the future application of IFRIC 8, IFRIC 9, IFRIC 10, and IFRIC 11. We expect additional disclosures to be required in the Notes when we apply the amended IAS 1, IFRS 7, and IFRS 8.

### Adjustment to the 2005 statement of income

Current restructuring costs from 2005 have been allocated proportionately to the appropriate individual functions in the statement of income (16 million euros to cost of sales, 2 million euros to marketing, selling and distribution costs and 6 million euros to administrative expenses).

# Notes to the Consolidated Statement of Income

## (0) Effect of significant acquisitions

The brands acquired from Gillette achieved sales in 2006 of 129 million euros. On March 31, 2006, we consolidated Alba Ltda. in Brazil for the first time. The purchase price was 36 million euros. Immediately after the acquisition, the company was merged with Henkel Ltda., Brazil. In the course of the acquisition, trademark rights of 8 million euros, property, plant and equipment of 4 million euros and current assets of 8 million euros were assumed by Henkel, as well as liabilities of 5 million euros. The goodwill arising on the acquisition was 21 million euros. On September 30, 2006, Jasminal S.A.R.L., Tunisia, was included in the consolidation. The purchase price was 12 million euros. In the course of the acquisition, property, plant and equipment of 1 million euros, current assets of 3 million euros and liabilities of 3 million euros were assumed by Henkel. The goodwill arising on the acquisition was 11 million euros.

## (1) Sales

Sales comprise sales of goods and services less sales deductions. Sales are recognized once the goods have been delivered or the service has been performed. In the case of goods, this coincides with the physical delivery and 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 must be able to be measured reliably. Services are generally provided in conjunction with the sale of goods and recorded once the service has been performed. No sale is recognized if there are significant risks relating to the receipt of the consideration or it is likely that the goods will be returned. Interest income is recognized on a time proportion basis that takes into account the effective yield on the asset and the interest rate in force. Dividend income from investments is recognized when the shareholder's right to receive payment is established.

An analysis of sales by business sector and geographical region is shown in the segment information on pages 74 and 75.

## (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.

## (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 23 million euros in 2006 (2005: 22 million euros).

## (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 are not all being 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 costs relating to the Human Resources, Purchasing, Accounts and IT departments.

**(6) Other operating income****Other operating income** in million euros

	2005	2006
Gains on disposal of non-current assets	9	44
Profit on sale of businesses	–	57
Income from assignment of accounts receivable	–	43
Income from release of provisions	31	58
Income from release of valuation allowances for doubtful debts	4	4
Write-ups of non-current assets	7	1
Foreign exchange gains on operating activities	37	32
Other operating revenue	95	59
<b>Total</b>	<b>183</b>	<b>298</b>

The income from the assignment of accounts receivable relates to the assignment by Henkel KGaA to Henkel Trust e.V. of a non-current receivable arising from claims pertaining to a hereditary building lease.

We were able to achieve a profit on the sale of the insulating glass sealant business and the rubber-to-metal bonding chemicals business of 41 million euros and on the sale of the Dial food business of 16 million euros. These profits were invested to improve our other businesses. Other operating revenue includes income not related to the period under review, insurance compensation amounting to 3 million euros (2005: 3 million euros) and refunds of 2 million euros (2005: 2 million euros).

**(7) Other operating charges****Other operating charges** in million euros

	2005	2006
Write-downs on miscellaneous assets	6	2
Foreign exchange losses on operating activities	31	35
Losses on disposal of non-current assets	3	7
Other operating expenses	38	46
<b>Total</b>	<b>78</b>	<b>90</b>

**(8) Financial items****Financial items** in million euros

	2005	2006
Income from associated companies	72	83
Net result from other investments	18	–29
Net interest	–210	–176
<b>Total</b>	<b>–120</b>	<b>–122</b>

Included in financial assets in the 2005 consolidated financial statements was our investment in the Japanese company Lion Corporation, which was shown at its fair value of 78 million euros. The investment was sold on November 30, 2006. Due to a fall in the share price, we recognized a loss on remeasurement to fair value of 26 million euros in the statement of income.

**Net result from other investments** in million euros

	2005	2006
Income from other investments	1	2
Income from profit and loss transfer agreements	1	-
Income from the remeasurement of financial assets at fair value	22	-
Gains on disposal of financial assets and marketable securities	-	3
Write-downs on shares in affiliated and other companies and on marketable securities	-4	-4
Losses arising from the remeasurement of financial assets to fair value	-	-30
Losses on disposal of financial assets	-2	-
<b>Total</b>	<b>18</b>	<b>-29</b>

**Net interest** in million euros

	2005	2006
Income from long-term loans	7	1
Interest and similar income from third parties	43	55
Other financial income	20	15
<b>Total interest income</b>	<b>70</b>	<b>71</b>
Interest charges payable to third parties	-142	-213
Other financial charges	-44	-24
Interest expense for pension provisions less expected income from plan assets <sup>1)</sup>	-94	-10
<b>Total interest expense</b>	<b>-280</b>	<b>-247</b>
<b>Total</b>	<b>-210</b>	<b>-176</b>

<sup>1)</sup> interest expense of 154 million euros and interest income of 144 million euros (2005: interest expense of 153 million euros and interest income of 59 million euros)

Included in other financial income are gains of 4 million euros (2005: 6 million euros) on the remeasurement to fair value of marketable securities, while other financial charges include losses on the remeasurement to fair value of marketable securities of 8 million euros (2005: 10 million euros).

**(9) Taxes on income****Earnings before taxes on income and analysis of taxes** in million euros

	2005	2006
<b>Earnings before tax</b>	<b>1,042</b>	<b>1,176</b>
Current taxes	259	232
Deferred taxes	13	73
<b>Taxes on income</b>	<b>272</b>	<b>305</b>

**Principal components of tax expense and income** in million euros

	2005	2006
Current tax expense/income in the reporting year	261	262
Current tax adjustments for prior years	-2	-30
Deferred tax expense/income from temporary differences	30	34
Deferred tax expense/income from changes in tax rates	2	-4
Increase/decrease in valuation allowances on deferred tax assets	16	-7

**Allocation of deferred taxes** in million euros

	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006
Intangible assets	139	71	523	456
Property, plant and equipment	57	28	105	96
Financial assets	35	63	35	28
Inventories	30	30	7	11
Other receivables and miscellaneous assets	78	74	35	30
Special tax-allowable items	6	8	110	99
Provisions	475	432	76	83
Liabilities	47	64	9	13
Tax credits	12	1	–	–
Loss carry-forwards	66	36	–	–
	<b>945</b>	<b>807</b>	<b>900</b>	<b>816</b>
Amounts netted	–427	–389	–427	–389
Valuation allowances	–62	–55	–	–
<b>Balance sheet figures</b>	<b>456</b>	<b>363</b>	<b>473</b>	<b>427</b>

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.

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 5 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 55 million euros (2005: 62 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.

Deferred taxes have not been recognized with respect to tax loss carry-forwards of 355 million euros (2005: 513 million euros), as it is not sufficiently probable that taxable profit will be available against which they may be utilized. Deferred taxes of 1 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, 2005	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2006
Must be utilized within:				
1 year	73	27	–	–
2 years	54	20	–	–
3 years	38	22	–	–
more than 3 years	285	233	–	–
Carry forward without restriction	318	172	16	3
<b>Total</b>	<b>768</b>	<b>474</b>	<b>16</b>	<b>3</b>



This table includes loss carry-forwards arising from the disposal of assets of 26 million euros (2005: 35 million euros) which 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 tax charge disclosed.

**Calculation of the tax charge disclosed** in million euros

	2005	2006
Earnings before taxes on income	1,042	1,176
Tax rate (including municipal trade tax) on income of Henkel KGaA	40.0 %	40.0 %
<b>Estimated tax charge</b>	<b>417</b>	<b>470</b>
Tax reductions due to differences between local tax rates and the hypothetical tax rate	-68	-139
Tax reductions for prior years	-2	-30
Tax increases due to losses in respect of which deferred taxes have not been recognized	13	22
Effects of different tax rates on net result from investments (at-equity investments)	-27	-30
Tax reductions due to tax-free income and other items	-107	-47
Tax increases due to non-deductible expenses and other items	46	59
comprising		
Non-deductible expenses	27	38
Municipal trade tax additions	8	17
Non-deductible withholding tax	11	4
<b>Tax charge disclosed</b>	<b>272</b>	<b>305</b>
<b>Tax rate</b>	<b>26.10 %</b>	<b>25.94 %</b>

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 in both 2005 and 2006 of 40.0 percent.

The deferred tax assets charged to equity have decreased by 5 million euros (2005: increase by 107 million euros). The deferred tax assets relate to actuarial gains and losses on pension obligations and financial instruments.

**(10) Minority interests**

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

The share of profits amounted to 26 million euros (2005: 19 million euros) and that of losses to 10 million euros (2005: 6 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 million euros

	Right Guard	Alba	Jasminal	Other	Total
Intangible assets/Property, plant and equipment	315	33	12	25	385
Current assets	–	8	4	15	27
Provisions/Liabilities	–	5	3	3	11

## 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 with finite lives	3 to 20
Residential buildings	50
Office buildings	40
Research and factory buildings, workshops, stores and staff buildings	25 to 33
Production facilities	10 to 25
Machinery	7 to 10
Office equipment	10
Vehicles	5 to 20
Factory and research equipment	2 to 5

## (11) Intangible assets

### Cost in million euros

	Trademark rights and other rights		Goodwill	Total
	Assets with indefinite useful lives	Assets with finite useful lives		
<b>At January 1, 2005</b>	<b>1,016</b>	<b>607</b>	<b>3,284</b>	<b>4,907</b>
Changes in the Group/Acquisitions	11	269	284	564
Additions	–	43	–	43
Disposals <sup>1)</sup>	–44	–13	–25	–82
Reclassifications	–	29	–3	26
Translation differences	114	76	441	631
<b>At December 31, 2005/January 1, 2006</b>	<b>1,097</b>	<b>1,011</b>	<b>3,981</b>	<b>6,089</b>
Changes in the Group/Acquisitions	180	6	166	352
Additions	7	40	–	47
Disposals <sup>1)</sup>	–	–18	–	–18
Reclassifications	–	5	–	5
Translation differences	–114	–51	–365	–530
<b>At December 31, 2006</b>	<b>1,170</b>	<b>993</b>	<b>3,782</b>	<b>5,945</b>
<sup>1)</sup> of which assets held for sale 2006	–	–	–	–
<sup>1)</sup> of which assets held for sale 2005	–44	–3	–25	–72

**Accumulated amortization** in million euros

	Trademark rights and other rights		Goodwill	Total
	Assets with indefinite useful lives	Assets with finite useful lives		
<b>At January 1, 2005</b>	-	<b>353</b>	-	<b>353</b>
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
<b>At December 31, 2005/January 1, 2006</b>	<b>4</b>	<b>425</b>	-	<b>429</b>
Changes in the Group/Acquisitions	-	-1	-	-1
Write-ups	-	-	-	-
Scheduled amortization	-	53	-	53
Impairment losses	-	3	-	3
Disposals	-	-16	-	-16
Reclassifications	-	-	-	-
Translation differences	-	-10	-	-10
<b>At December 31, 2006</b>	<b>4</b>	<b>454</b>	-	<b>458</b>

**Net book value** in million euros

	Trademark rights and other rights		Goodwill	Total
	Assets with indefinite useful lives	Assets with finite useful lives		
<b>At December 31, 2006</b>	<b>1,166</b>	<b>539</b>	<b>3,782</b>	<b>5,487</b>
At December 31, 2005	1,093	586	3,981	5,660

Intangible assets acquired for valuable consideration are stated initially at acquisition cost, while 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 (impairment-only approach).

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 and trademark rights and other rights with indefinite useful lives at book value at the balance sheet date:

**Book value** in million euros

	Dec. 31, 2005		Dec. 31, 2006	
	Trademark rights and other rights with indefinite useful lives	Goodwill	Trademark rights and other rights with indefinite useful lives	Goodwill
<b>Cash-generating units</b>				
Detergents	360	761	335	710
Household cleaners	324	927	254	822
<b>Total Laundry &amp; Home Care</b>	<b>684</b>	<b>1,688</b>	<b>589</b>	<b>1,532</b>
Retail products	347	1,021	512	1,069
Hair salon products	14	37	14	33
<b>Total Cosmetics/Toiletries</b>	<b>361</b>	<b>1,058</b>	<b>526</b>	<b>1,102</b>
Adhesives and sealants for construction, craftsmen and DIY	44	255	47	258
Adhesives and adhesive tapes for home, school and office	–	161	–	155
<b>Total Consumer and Craftsmen Adhesives</b>	<b>44</b>	<b>416</b>	<b>47</b>	<b>413</b>
Transport and electronics	4	365	4	303
Industrial adhesives	–	454	–	432
<b>Total Henkel Technologies</b>	<b>4</b>	<b>819</b>	<b>4</b>	<b>735</b>

The assessment for goodwill impairment, comparing the fair value of the goodwill less costs to sell with the carrying amount, is based on future estimated cash flows, which are 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 1.25. The cash flows in all cash-generating units were discounted at different rates for the cost of capital in each business sector from 6.6 to 7.9 percent after tax, taking into account specific tax effects.

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 3 percent per annum with a constant share of the world market.

Sales growth in the *Cosmetics/Toiletries* business sector over the three-year forecasting horizon is budgeted at around 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 4 to 5 percent per annum. General market growth is expected to be at around 3 percent per annum, so we forecast an increase in market share.

Average sales growth of 6 percent per annum is budgeted in the *Henkel Technologies* business sector, while market growth is expected to be around 3 percent per annum. We expect to expand our market share still further, especially in the growth regions in Asia/Pacific and Eastern Europe.

In all the business sectors, we have assumed that future increases in the price of raw materials will be more moderate than in previous years and will be largely offset by economy measures in Purchasing. Together with further cost-cutting exercises, this will result in stable gross margins in the *Cosmetics/Toiletries* business sector. In the *Laundry & Home Care*, *Consumer and Craftsmen Adhesives* and *Henkel Technologies* 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 are established in their markets and will continue to be promoted in the future.

In the impairment tests in 2006 for trademark rights and other rights with an indefinite useful life of 1,166 million euros, cash-generating units were identified and their recoverable amounts determined. No impairment losses were recognized as a result of the impairment test.

## (12) 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
<b>At Jan. 1, 2005</b>	<b>1,555</b>	<b>2,394</b>	<b>790</b>	<b>116</b>	<b>4,855</b>
Changes in the Group/Acquisitions	38	56	4	2	100
Additions	49	131	89	124	393
Disposals <sup>1)</sup>	-69	-100	-70	-5	-244
Reclassifications	25	41	20	-112	-26
Translation differences	19	147	37	4	207
<b>At Dec. 31, 2005/Jan. 1, 2006</b>	<b>1,617</b>	<b>2,669</b>	<b>870</b>	<b>129</b>	<b>5,285</b>
Changes in the Group/Acquisitions	7	15	-1	-	21
Additions	68	123	83	157	431
Disposals <sup>1)</sup>	-48	-140	-64	-6	-258
Reclassifications	13	54	22	-94	-5
Translation differences	-45	-70	-26	-6	-147
<b>At Dec. 31, 2006</b>	<b>1,612</b>	<b>2,651</b>	<b>884</b>	<b>180</b>	<b>5,327</b>
<sup>1)</sup> of which assets held for sale 2006	-7	-3	-	-	-10
<sup>1)</sup> of which assets held for sale 2005	-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
<b>At Jan. 1, 2005</b>	<b>759</b>	<b>1,681</b>	<b>606</b>	<b>1</b>	<b>3,047</b>
Changes in the Group/Acquisitions	-	3	-	-	3
Write-ups	-5	-2	-	-	-7
Scheduled depreciation	46	178	55	-	279
Impairment losses	4	-	-	-	4
Disposals <sup>1)</sup>	-35	-72	-63	-1	-171
Reclassifications	-1	-13	16	-	2
Translation differences	-7	80	10	-	83
<b>At Dec. 31, 2005/Jan. 1, 2006</b>	<b>761</b>	<b>1,855</b>	<b>624</b>	<b>-</b>	<b>3,240</b>
Changes in the Group/Acquisitions	-	3	-	-	3
Write-ups	-	-1	-	-	-1
Scheduled depreciation	45	149	88	-	282
Impairment losses	4	7	2	-	13
Disposals <sup>1)</sup>	-36	-126	-58	-	-220
Reclassifications	1	7	-8	-	-
Translation differences	-14	-27	-27	-	-68
<b>At Dec. 31, 2006</b>	<b>761</b>	<b>1,867</b>	<b>621</b>	<b>-</b>	<b>3,249</b>
<sup>1)</sup> of which assets held for sale 2006	-3	-2	-	-	-5
<sup>1)</sup> of which assets held for sale 2005	-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
<b>At December 31, 2006</b>	<b>851</b>	<b>784</b>	<b>263</b>	<b>180</b>	<b>2,078</b>
At December 31, 2005	856	814	246	129	2,045

Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of overheads; interest charges on borrowings are not included. Cost figures are shown net of investment grants and allowances. There were liabilities secured by mortgages at December 31, 2006 of 24 million euros (2005: 33 million euros). The periods over which the assets are depreciated are based on their estimated useful lives as set out on page 84. Scheduled depreciation and impairment losses recognized are disclosed in the consolidated statement of income according to the functions for which the assets are used.

**(13) 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 are measured subsequently at amortized cost. Shares in affiliated companies are measured 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 8 and 50, pages 80 and 113). The percentage holding is calculated on the basis of the shares outstanding. The updated net asset figure is translated at the mid rate of exchange on the balance sheet date. The decrease in the carrying value of Ecolab Inc. is due to a share repurchase during 2006 and to the offsetting of the actuarial gains and losses arising on the measurement of the pension provisions. These two factors had a significant impact on the equity of Ecolab Inc. and therefore also on the equity valuation of our investment.

The shares in the other investment in Lion Corporation were sold in the course of 2006. As a result in the fall in the stock market price of the shares, we recognized a loss on remeasurement to fair value of 26 million euros.

**Cost** in million euros

	Affiliated companies	Shares in associated companies	Other investments	Long-term loans	Total
<b>At Jan. 1, 2005</b>	<b>348</b>	<b>463</b>	<b>116</b>	<b>134</b>	<b>1,061</b>
Changes in the Group/Acquisitions	-316	-	-	-	-316
Additions	-	54	24	-	78
Disposals	-1	-	-11	-127	-139
Reclassifications	-	-	-	-	-
Translation differences	2	13	-	-	15
<b>At Dec. 31, 2005/Jan. 1, 2006</b>	<b>33</b>	<b>530</b>	<b>129</b>	<b>7</b>	<b>699</b>
Changes in the Group/Acquisitions	-18	-	-	-	-18
Additions	33	59	1	-	93
Disposals	-	-83	-92	-4	-179
Reclassifications	-	-	-	-	-
Translation differences	-3	-10	-	-	-13
<b>At Dec. 31, 2006</b>	<b>45</b>	<b>496</b>	<b>38</b>	<b>3</b>	<b>582</b>

**Accumulated write-downs** in million euros

	Affiliated companies	Shares in associated companies	Other investments	Long-term loans	Total
<b>At Jan. 1, 2005</b>	<b>3</b>	<b>-</b>	<b>19</b>	<b>1</b>	<b>23</b>
Changes in the Group/Acquisitions	-	-	-	-	-
Write-ups	-	-	-	-	-
Write-downs	-	-	4	-	4
Disposals	-	-	-10	-	-10
Reclassifications	-	-	-	-	-
Translation differences	1	-	-	-	1
<b>At Dec. 31, 2005/Jan. 1, 2006</b>	<b>4</b>	<b>-</b>	<b>13</b>	<b>1</b>	<b>18</b>
Changes in the Group/Acquisitions	-2	-	-	-	-2
Write-ups	-	-	-	-1	-1
Write-downs	-	-	4	-	4
Disposals	-	-	-2	-	-2
Reclassifications	-	-	-	-	-
Translation differences	-	-	-	-	-
<b>At Dec. 31, 2006</b>	<b>2</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>17</b>

**Net book value** in million euros

	Affiliated companies	Shares in associated companies	Other investments	Long-term loans	Total
<b>At December 31, 2006</b>	<b>43</b>	<b>496</b>	<b>23</b>	<b>3</b>	<b>565</b>
At December 31, 2005	29	530	116	6	681

**(14) Other non-current assets**

These include non-current receivables and miscellaneous assets, which are stated at face value or at their fair values. Income tax assets amounted to 5 million euros (2005: 5 million euros). As soon as risks are identified in other non-current assets, valuation allowances are set up.

**(15) 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 9 (Taxes on income, page 81 ff.).

**(16) Inventories**

Inventories are stated at purchase or manufacturing cost. 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 54 million euros (2005: 32 million euros).

#### Analysis of inventories in million euros

	Dec. 31, 2005	Dec. 31, 2006
Raw materials and supplies	368	386
Work in process	28	67
Finished products and merchandise	830	859
Payments on account for merchandise	6	13
<b>Total</b>	<b>1,232</b>	<b>1,325</b>

#### (17) Trade accounts receivable

Trade accounts receivable are due within one year. Specific risks are covered by appropriate valuation allowances. A total of 23 million euros (2005: 22 million euros) has been provided in the form of valuation allowances.

#### (18) Other current receivables and miscellaneous assets

##### Other current receivables and miscellaneous assets in million euros

	Dec. 31, 2005	Dec. 31, 2006
Amounts receivable from non-consolidated affiliated companies	4	1
Amounts receivable from companies in which an investment is held	5	5
Derivatives with positive fair values	32	41
Miscellaneous assets	298	353
Deferred charges	39	36
<b>Total</b>	<b>378</b>	<b>436</b>

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: 23 million euros (2005: 53 million euros)
- >> amounts due from employees: 13 million euros (2005: 13 million euros)
- >> amounts due from suppliers: 24 million euros (2005: 27 million euros)
- >> insurance claims: 2 million euros (2005: 2 million euros)
- >> payments made on account: 20 million euros (2005: 13 million euros)
- >> other tax receivables: 122 million euros (2005: 74 million euros)

#### (19) Liquid funds and marketable securities

##### Liquid funds and marketable securities in million euros

	Dec. 31, 2005	Dec. 31, 2006
Liquid funds	223	181
Marketable securities	989	748
<b>Total</b>	<b>1,212</b>	<b>929</b>

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.

#### (20) Assets held for sale

The remeasurement 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.

The amounts included under the heading "Assets held for sale" in 2005 related principally to assets which were expected to be disposed of under an asset deal when the foods business (Armour) of the Dial Corporation, USA, was sold. The foods business is not a significant line or core business within the Henkel Group. The business was sold in March 2006.

#### (21) Subscribed capital

##### Subscribed capital in million euros

	Dec. 31, 2005	Dec. 31, 2006
Ordinary bearer shares	222	222
Non-voting preferred bearer shares	152	152
<b>Capital stock</b>	<b>374</b>	<b>374</b>
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 25.6 million 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. This authorization was renewed for the period until April 9, 2011 at the Annual General Meeting on April 10, 2006, and at the same time the authorization granted on April 30, 2001 was withdrawn.

At the Annual General Meeting of Henkel KGaA on April 18, 2005, 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 17, 2006. This authorization was renewed for the period until October 9, 2007 at the Annual General Meeting on April 10, 2006, 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, 2006 amounted to 1,819,498 preferred shares. This represents 1.25 percent of the capital stock and a proportional nominal value of 4.66 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. Since 2004, the exercise of options has led to a reduction of 676,202 in treasury stock held, with a proportional nominal value of 1,731,000 euros (0.46 percent of the capital stock). In 2006, the exercise of options led to a reduction of 555,082 in treasury stock held. The proportional nominal value of the capital stock amounted to 1,421,000 euros (0.38 percent). The selling prices were based on the stock market prices prevailing at the time of disposal, and the gain on disposal was 47 million euros, which was recognized directly in equity.

## **(22) 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.

## **(23) 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 less minority interests
- >> buy-back of treasury stock by Henkel KGaA at cost and the gain on their disposal
- >> the recognition in equity of actuarial gains and losses

Revenue reserves also include changes in the equity valuation of our investment in Ecolab Inc. reflected directly in equity. These result mainly from recognizing actuarial gains and losses in equity and from share repurchase schemes in Ecolab Inc.

## **(24) Gains and losses recognized in equity**

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

Mainly as a result of the decrease in the value of the US dollar against the euro, the negative translation difference at December 31, 2006 was up by 486 million euros compared with December 31, 2005 (2005: negative amount reduced by 602 million euros).

## **(25) Minority interests**

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

## **(26) 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 obligations 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").

To provide protection under civil law of the pension entitlements of future and current pensioners against insolvency, the proceeds of the bond issued in 2005 and certain other assets were allocated to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in 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 <sup>1)</sup>	
	2005	2006	2005	2006	2005	2006
Discount factor	4.3	4.3	5.75	5.8	2.0 – 6.0	2.0 – 6.0
Income trend	3.0	3.0	4.0	4.0	1.7 – 4.0	1.7 – 4.0
Retirement benefit trend	1.5	1.5	–	–	0 – 3.0	0 – 3.0
Expected return on plan assets	4.8	6.3	7.0	7.0	1.7 – 7.0	1.7 – 7.0
Expected increases in costs for medical benefits	–	–	5.0 – 10.5	5.0 – 10.0	5.25 – 10.5	5.0 – 10.0

<sup>1)</sup> For the eurozone, a discount factor of 4.3 percent was used (2005: 4.3 percent).

The expected return on total plan assets was derived from the weighted expected long-term return on the various categories of assets.

#### Present value of pensions and similar obligations at December 31, 2005 in million euros

	Germany	USA	Rest of world	Total
<b>At January 1, 2005</b>	<b>1,792</b>	<b>693</b>	<b>455</b>	<b>2,940</b>
<b>Changes in the Group/Translation differences</b>	<b>1</b>	<b>107</b>	<b>10</b>	<b>118</b>
<b>Actuarial gains/losses</b>	<b>187</b>	<b>16</b>	<b>49</b>	<b>252</b>
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
<b>Allocated</b>	<b>139</b>	<b>69</b>	<b>49</b>	<b>257</b>
Employees' contributions to pension funds	–	–	1	1
Retirement benefits paid out of plan assets	–8	–30	–11	–49
Employer's payments for pensions and similar obligations	–105	–20	–13	–138
<b>Utilized</b>	<b>–113</b>	<b>–50</b>	<b>–23</b>	<b>–186</b>
<b>Released</b>	<b>–</b>	<b>–21</b>	<b>–6</b>	<b>–27</b>
<b>At December 31, 2005</b>	<b>2,006</b>	<b>814</b>	<b>534</b>	<b>3,354</b>

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

	Germany	USA	Rest of world	Total
<b>At January 1, 2005</b>	<b>34</b>	<b>416</b>	<b>273</b>	<b>723</b>
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
<b>At December 31, 2005</b>	<b>1,457</b>	<b>502</b>	<b>335</b>	<b>2,294</b>
Actual return on plan assets	9	32	47	88

**Pensions and similar obligations in the balance sheet at December 31, 2005** in million euros

	Germany	USA	Rest of world	Total
<b>At January 1, 2005</b>	<b>1,758</b>	<b>277</b>	<b>183</b>	<b>2,218</b>
Changes in the Group/Translation differences	-	40	4	44
Actuarial gains/losses	187	16	20	223
Allocated	130	37	31	198
Utilized	-1,526	-37	-32	-1,595
Released	-	-21	-6	-27
<b>At December 31, 2005</b>	<b>549</b>	<b>312</b>	<b>200</b>	<b>1,061</b>
<b>Analysis of provisions for pensions and similar obligations:</b>				
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
<b>Total</b>	<b>549</b>	<b>312</b>	<b>200</b>	<b>1,061</b>

**Net pension cost in 2005** in million euros

	Germany	USA	Rest of world	Total
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
<b>Allocation to provision for pensions and similar obligations</b>	<b>130</b>	<b>37</b>	<b>31</b>	<b>198</b>

**Present value of pensions and similar obligations at December 31, 2006** in million euros

	Germany	USA	Rest of world	Total
<b>At January 1, 2006</b>	<b>2,006</b>	<b>814</b>	<b>534</b>	<b>3,354</b>
<b>Changes in the Group/Translation differences</b>	<b>-1</b>	<b>-85</b>	<b>-12</b>	<b>-98</b>
<b>Actuarial gains/losses</b>	<b>9</b>	<b>5</b>	<b>7</b>	<b>21</b>
Current service cost	86	20	27	133
Amortization of past service cost	-	-	6	6
Gains/losses arising from the termination and curtailment of plans	-	1	-1	-
Interest expense	86	43	25	154
<b>Allocated</b>	<b>172</b>	<b>64</b>	<b>57</b>	<b>293</b>
Employees' contributions to pension funds	2	-	1	3
Retirement benefits paid out of plan assets	-13	-26	-14	-53
Employer's payments for pensions and similar obligations	-103	-20	-14	-137
<b>Utilized</b>	<b>-114</b>	<b>-46</b>	<b>-27</b>	<b>-187</b>
<b>Released</b>	<b>-</b>	<b>-30</b>	<b>-1</b>	<b>-31</b>
<b>At December 31, 2006</b>	<b>2,072</b>	<b>722</b>	<b>558</b>	<b>3,352</b>

**Fair value of plan assets at December 31, 2006** in million euros

	Germany	USA	Rest of world	Total
<b>At January 1, 2006</b>	<b>1,457</b>	<b>502</b>	<b>335</b>	<b>2,294</b>
Changes in the Group/Translation differences	-	-55	-10	-65
Employer's contributions to pension funds	170	13	27	210
Employees' contributions to pension funds	2	-	1	3
Retirement benefits paid out of plan assets	-13	-26	-14	-53
Expected return on plan assets	90	33	21	144
Actuarial gains (+)/losses (-)	-16	30	17	31
<b>At December 31, 2006</b>	<b>1,690</b>	<b>497</b>	<b>377</b>	<b>2,564</b>
Actual return on plan assets	74	63	38	175

**Pensions and similar obligations in the balance sheet at December 31, 2006** in million euros

	Germany	USA	Rest of world	Total
<b>At January 1, 2006</b>	<b>549</b>	<b>312</b>	<b>200</b>	<b>1,061</b>
Changes in the Group/Translation differences	-1	-30	-3	-34
Actuarial gains/losses	25	-25	-10	-10
Allocated	82	31	36	149
Utilized	-273	-33	-41	-347
Released	-	-30	-1	-31
<b>At December 31, 2006</b>	<b>382</b>	<b>225</b>	<b>181</b>	<b>788</b>
<b>Analysis of provisions for pensions and similar obligations:</b>				
Present value of unfunded obligations	137	212	94	443
Present value of funded obligations	1,935	510	464	2,909
Fair value of plan assets	-1,690	-497	-377	-2,564
Unrecognized past service cost	-	-	-	-
<b>Total</b>	<b>382</b>	<b>225</b>	<b>181</b>	<b>788</b>

**Net pension cost in 2006** in million euros

	Germany	USA	Rest of world	Total
Current service cost	86	20	27	133
Amortization of past service cost	–	–	6	6
Gains/losses arising from the termination and curtailment of plans	–	1	–1	–
Interest expense	86	43	25	154
Expected return on plan assets	–90	–33	–21	–144
<b>Allocation to provision for pensions and similar obligations</b>	<b>82</b>	<b>31</b>	<b>36</b>	<b>149</b>

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. As of December 31, 2006, accumulated actuarial gains and losses of 630 million euros had been offset against revenue reserves.

Of the amounts allocated to the provision in 2006, 139 million euros (2005: 104 million euros) is included in operating profit (pension costs as part of payroll costs, page 104) and 10 million euros (2005: 94 million euros) in financial items (page 80). 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, 2005		December 31, 2006	
	Fair value	in %	Fair value	in %
Shares/Investment fund units	779	34.0	2,086	81.4
Bonds	650	28.3	295	11.5
Other assets	699	30.5	183	7.1
Cash	166	7.2	–	–
<b>Total</b>	<b>2,294</b>	<b>100.0</b>	<b>2,564</b>	<b>100.0</b>

At December 31, 2006, other assets include the present value of a non-current receivable of 43 million euros (2005: 0 million euros) relating to claims pertaining to a hereditary building lease assigned by Henkel KGaA to Henkel Trust e.V. Also shown here is a claim of 116 million euros (2005: 121 million euros) against Cognis for indemnification of pension obligations.

**Additional information** in million euros

	2005	2006
Present value of obligations	3,354	3,352
Fair value of plan assets	2,294	2,564
Overfunding/underfunding of pension obligations	–1,060	–788
Effect of experience adjustments on pension obligations	–11	–1
Effect of experience adjustments on plan assets	29	31



**(27) Other long-term provisions****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
<b>Total</b>	<b>599</b>	<b>-129</b>	<b>224</b>	<b>11</b>	<b>192</b>	<b>427</b>

**Changes in 2006** in million euros

	Balance Jan. 1, 2006	Special circum- stances	Utilized	Released	Allocated	Balance Dec. 31, 2006
Tax provisions	187	-10	138	-	130	169
Sundry long-term provisions	199	-44	45	3	8	115
Advanced Restructuring	41	-31	-	-	-	10
<b>Total</b>	<b>427</b>	<b>-85</b>	<b>183</b>	<b>3</b>	<b>138</b>	<b>294</b>

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 Advanced 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, 2005	Dec. 31, 2006
Sales	9	5
Personnel	36	37
Production and engineering	40	49
Administration	114	24
<b>Total</b>	<b>199</b>	<b>115</b>

**(28) Long-term borrowings**

Long-term borrowings comprise all long-term interest-bearing obligations outstanding at the balance sheet date. The maturities of these obligations at December 31, 2005 were:

**Analysis** in million euros

	Residual term		Dec. 31, 2005 Total
	more than 5 years	between 1 and 5 years	
Bonds (of which amounts secured)	2,332	–	2,332 (40)
Bank loans and overdrafts <sup>1)</sup> (of which amounts secured)	8	17	25 (17)
Other financial liabilities (of which amounts secured)	–	43	43 (4)
<b>Total</b>	<b>2,340</b>	<b>60</b>	<b>2,400</b>

<sup>1)</sup> obligations with variable rates of interest or interest rates pegged for less than one year

The bonds at December 31, 2005 included the following:

**Bonds** in million euros

Issued by	Type	Nominal value	Interest rate <sup>1)</sup>	Interest fixed
Henkel KGaA	Bond	1,000	4.2500	until 2013 <sup>2)</sup>
<i>Interest rate swap (3-month Euribor +0.405 %)</i>	<i>Receiver swap</i>	<i>1,000</i>	<i>2.8571</i>	<i>3 months</i>
Henkel KGaA	Hybrid bond	1,300	5.3750	until 2015 <sup>3)</sup>
<i>Interest rate swap (3-month Euribor +1.80 %)</i>	<i>Receiver swap</i>	<i>650</i>	<i>4.3020</i>	<i>3 months</i>

<sup>1)</sup> interest rate on December 31, 2005    <sup>2)</sup> fixed-rate interest of bond coupon: 4.25 percent, converted using interest rate swaps into a floating interest rate, interest rate to be fixed next on March 10, 2006 (fair value hedge)    <sup>3)</sup> fixed-rate interest of bond coupon: 5.375 percent, 50 percent converted using interest rate swaps into a floating interest rate, interest rate to be fixed next on February 27, 2006 (fair value hedge)

Maturities of long-term obligations at December 31, 2006 were:

**Analysis** in million euros

	Residual term		Dec. 31, 2006 Total
	more than 5 years	between 1 and 5 years	
Bonds (of which amounts secured)	2,253	–	2,253 (12)
Bank loans and overdrafts <sup>1)</sup> (of which amounts secured)	10	16	26 (12)
Other financial liabilities (of which amounts secured)	–	43	43 (2)
<b>Total</b>	<b>2,263</b>	<b>59</b>	<b>2,322</b>

<sup>1)</sup> obligations with floating rates of interest or interest rates pegged for less than one year

The bonds at December 31, 2006 included the following:

**Bonds** in million euros

Issued by	Type	Nominal value	Interest rate <sup>1)</sup>	Interest fixed
Henkel KGaA	Bond	1,000	4.2500	until 2013 <sup>2)</sup>
<i>Interest rate swap (3-month Euribor +0.405 %)</i>	<i>Receiver swap</i>	<i>1,000</i>	<i>4.0671</i>	<i>3 months</i>
Henkel KGaA	Hybrid bond	1,300	5.3750	until 2015 <sup>3)</sup>
<i>Interest rate swap (3-month Euribor +1.80 %)</i>	<i>Receiver swap</i>	<i>650</i>	<i>5.4182</i>	<i>3 months</i>

<sup>1)</sup> interest rate on December 31, 2006    <sup>2)</sup> fixed-rate interest of bond coupon: 4.25 percent, converted using interest rate swaps into a floating interest rate, interest rate to be fixed next on March 12, 2007 (fair value hedge)    <sup>3)</sup> fixed-rate interest of bond coupon: 5.375 percent, 50 percent converted using interest rate swaps into a floating interest rate, interest rate to be fixed next on February 26, 2007 (fair value hedge)

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

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, 2006, the percentage was +50.92 percent (2005: +40.81 percent).

### (29) Other non-current liabilities

Other non-current liabilities relate largely to amounts due to employees and to derivatives at fair values.

### (30) 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 81).

### (31) Short-term provisions

#### 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
<b>Total</b>	<b>918</b>	<b>158</b>	<b>757</b>	<b>56</b>	<b>669</b>	<b>932</b>

#### Changes in 2006 in million euros

	At Jan. 1, 2006	Special circum- stances	Utilized	Released	Allocated	At Dec. 31, 2006
Tax provisions	114	44	107	35	96	112
Sundry short-term provisions	707	44	709	39	832	835
Advanced Restructuring	111	31	97	–	–	45
<b>Total</b>	<b>932</b>	<b>119</b>	<b>913</b>	<b>74</b>	<b>928</b>	<b>992</b>

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.

**Analysis by function** in million euros

	Dec. 31, 2005	Dec. 31, 2006
Sales	257	268
Personnel	294	314
Production and engineering	44	17
Administration	112	236
<b>Total</b>	<b>707</b>	<b>835</b>

**(32) Short-term borrowings****Short-term borrowings** in million euros

	Dec. 31, 2005 Total	Dec. 31, 2006 Total
Bonds	31	31
Commercial papers <sup>1)</sup>	767	147
Loans from employee welfare funds of the Henkel Group	1	4
Bank loans and overdrafts (of which amounts secured)	245 (29)	401 (33)
Other financial liabilities	361	429
<b>Total</b>	<b>1,405</b>	<b>1,012</b>

<sup>1)</sup> 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.

**(33) Trade accounts payable**

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

**(34) Other current liabilities****Other current liabilities** in million euros

	Dec. 31, 2005 Total	Dec. 31, 2006 Total
Amounts due to non-consolidated affiliated companies	2	9
Amounts due to other companies in which investments are held	1	-
Liabilities in respect of social security	32	22
Income tax liabilities	8	27
Other tax liabilities	70	97
Derivatives with negative fair values	106	12
Sundry current liabilities including deferred income (of which amounts secured)	236 (-)	177 (-)
<b>Total</b>	<b>455</b>	<b>344</b>

Sundry current liabilities include:

- >> amounts due to customers of 26 million euros (2005: 20 million euros)
- >> commission payable of 4 million euros (2005: 5 million euros)
- >> amounts due to employees of 40 million euros (2005: 81 million euros)
- >> advance payments received of 4 million euros (2005: 4 million euros)
- >> liabilities relating to employees' deductions of 42 million euros (2005: 54 million euros)

**(35) Contingent liabilities****Contingent liabilities** in million euros

	Dec. 31, 2005	Dec. 31, 2006
Bills and notes discounted	4	–
Liabilities under guarantee and warranty agreements	20	17

**(36) Other financial commitments**

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. The amounts shown are the nominal values. At December 31, 2006, they were due for payment as follows:

**Rent, leasehold and lease commitments** in million euros

	Dec. 31, 2005	Dec. 31, 2006
Due in the following year	25	36
Due within 1 to 5 years	102	94
Due after 5 years	6	18
<b>Total</b>	<b>133</b>	<b>148</b>

The order commitments for property, plant and equipment amounted to 68 million euros at the end of 2006 (2005: 36 million euros), the purchase commitments from toll manufacturing contracts amounted to 31 million euros (2005: 47 million euros).

Payment commitments under the terms of agreements for capital increases and share purchases signed prior to December 31, 2006 amounted to 22 million euros (2005: 26 million euros).

**(37) Derivatives and other financial instruments****Treasury guidelines 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 Corporate Treasury guidelines, 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, again in accordance with the Treasury guidelines. 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 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, so that, 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. Changes in the value of all securities and investments in companies are recognized immediately in the statement of income under financial items. Shares in affiliated companies are measured at amortized cost. Long-term loans are accounted for at amortized cost.

#### Specific financial instruments by category in million euros

	Dec. 31, 2005	Dec. 31, 2006
<b>Securities</b>	<b>989</b>	<b>748</b>
– at fair value through profit or loss	989	748
<b>Other investments/Shares in affiliated companies</b>	<b>145</b>	<b>66</b>
– at fair value through profit or loss	78	6
– at amortized cost	67	60

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 corporate 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), a hedge of the exposure to variability in future cash flows (cash flow hedge) or 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. To determine the fair value of the bonds (see Note 28, page 98), only that portion of the bond which relates to the hedged interest rate risk is taken into account. Interest rate hedging instruments at the balance sheet date had negative fair values of 45 million euros (2005: negative fair values of 38 million euros). The gain or loss on remeasuring the derivatives (2006: loss of 83 million euros, 2005: gain of 26 million euros) and the gain or loss on the hedged bonds (2006: gain of 79 million euros, 2005: loss of 26 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 consolidated 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. In the past fiscal year, no cash flow hedges have been entered into and no amounts have been transferred from equity to 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, a loss of 20 million euros was recorded in equity at December 31, 2006 (2005: a loss of 23 million euros). The changes in fair value during fiscal 2006 were taken directly to gains and losses recognized in equity after taking account of deferred taxes (2006: a gain of 3 million euros, 2005: a loss of 36 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

Maturities	EUR		USD		JPY		GBP	
	2005	2006	2005	2006	2005	2006	2005	2006
3 months	2.47	3.71	4.52	5.33	0.04	0.54	4.57	5.26
6 months	2.61	3.84	4.66	5.33	0.06	0.61	4.54	5.39
1 year	2.82	4.02	4.81	5.31	0.11	0.73	4.53	5.51
2 years	3.03	4.11	4.81	5.16	0.36	0.93	4.56	5.51
5 years	3.21	4.09	4.84	5.07	0.95	1.38	4.56	5.37
10 years	3.44	4.16	4.89	5.18	1.62	1.84	4.48	5.07

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 are 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	
	2005	2006	2005	2006	2005	2006
Forward exchange contracts <sup>1)</sup>	4,109	4,183	32	41	-106	-12
<i>(of which for hedging loans within the Group)</i>	<i>(2,883)</i>	<i>(2,420)</i>	<i>(23)</i>	<i>(32)</i>	<i>(-81)</i>	<i>(-6)</i>
Currency options <sup>1)</sup>	62	60	-	-	-	-
Interest rate swaps <sup>2)</sup>	1,650	1,650	38	-	-	-45
Cross currency swaps <sup>1)</sup>	11	-	-	-	-	-
<b>Total derivative financial instruments</b>	<b>5,832</b>	<b>5,893</b>	<b>70</b>	<b>41</b>	<b>-106</b>	<b>-57</b>

<sup>1)</sup> maturity period < 1 year    <sup>2)</sup> 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

### (38) Cost of materials

#### Cost of materials in million euros

	2005	2006
Cost of raw materials, supplies and merchandise	4,719	5,237
Cost of external services	285	324
<b>Total</b>	<b>5,004</b>	<b>5,561</b>

### (39) Payroll costs

#### Payroll costs in million euros

	2005	2006
Wages and salaries	1,818	1,856
Social security contributions and staff welfare costs	340	342
Pension costs	115	153
<b>Total</b>	<b>2,273</b>	<b>2,351</b>

#### 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 (tranche 4) and 2004 (tranche 5) 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 decided to avail 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 fifth tranche will be treated as if it is to be paid in shares, as Henkel may elect to pay the amount due either in shares or cash.

#### Options/subscribable shares in number of shares/options

	1st tranche <sup>1)</sup>	2nd tranche <sup>1)</sup>	3rd tranche <sup>1)</sup>	4th tranche <sup>1)</sup>	5th tranche	Total	
<b>At January 1, 2006</b>	<b>56,170</b>	<b>66,277</b>	<b>87,265</b>	<b>115,950</b>	<b>12,600</b>	<b>338,262</b>	
<i>expressed in shares</i>	168,510	198,831	261,795	579,750	–	1,208,886	
Options granted	315	2,625	5,160	–	–	8,100	
<i>expressed in shares</i>	945	7,875	15,480	–	–	24,300	
Options exercised <sup>2)</sup>	28,370	35,914	45,200	45,431	–	154,915	
<i>expressed in shares</i>	85,110	107,742	135,600	227,155	–	555,607	
Options forfeited	420	630	315	8,745	–	10,110	
<i>expressed in shares</i>	1,260	1,890	945	43,725	–	47,820	
<b>At December 31, 2006</b>	<b>27,695</b>	<b>32,358</b>	<b>46,910</b>	<b>61,774</b>	<b>12,600</b>	<b>181,337</b>	
<i>expressed in shares</i>	83,085	97,074	140,730	308,870	–	629,759	
of which held by the Management Board	1,460	1,460	7,200	9,000	12,600	31,720	
<i>expressed in shares</i>	4,380	4,380	21,600	45,000	–	75,360	
of which held by other senior executives	26,235	30,898	39,710	52,774	–	149,617	
<i>expressed in shares</i>	78,705	92,694	119,130	263,870	–	554,399	
Payroll costs 2006	in million euros	–	–	–	7.5	0.3	7.8
Payroll costs 2005	in million euros	–	–	–	12.9	0.3	13.2

<sup>1)</sup> number of exercisable options    <sup>2)</sup> average price at exercise date = 98.46 euros

At December 31, 2006, there is a provision of 16.6 million euros (2005: 17.1 million euros) in respect of the fourth tranche. The intrinsic value of the exercisable options in the fourth tranche at the end of the fiscal year is 16.6 million euros (2005: 15.9 million 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

		On issue 1st tranche	On issue 2nd tranche	On issue 3rd tranche	At Dec. 31, 2006 4th tranche	On issue 5th tranche
Exercise price	in euros	63.13	71.23	74.67	57.66	71.28
Expected volatility of the share price	in %	35.0	33.1	32.4	21.9	26.6
Expected volatility of the index	in %	19.7	20.7	22.4	14.3	18.6
Expected lapse rate	in %	3	3	3	–	–
Risk-free interest rate	in %	5.19	4.18	4.78	3.69	3.96

The expected volatility rates are based on the historic volatility of the Henkel preferred share and of the DJ Stoxx index. The period to which the estimate of the volatility of the Henkel share relates starts at the beginning of the remaining term of the option tranche and finishes on the date on which the tranche is valued.

The performance period relating to the first tranche ended on July 10, 2003, that of the second tranche on July 12, 2004, that of the third tranche on May 16, 2005 and that of the fourth tranche on May 11, 2006. Hereafter, at any time during a five-year period, the option holders in the first three tranches may exercise their right to acquire three Henkel preferred shares per option. In the case of the fourth tranche, the option holders may acquire five shares per option. 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 allocation for the fourth tranche was made solely as a result of the absolute performance of the shares. The absolute performance targets were not met for the first three tranches and the relative performance target was not met for the fourth tranche. The options may be exercised at any time, except during blocked periods which cover the four weeks prior to the public 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 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 and that he or she is not under notice during that period. 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 the periods to date, these targets have been 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, 2006, the CPU Plan comprised 116,000 CPUs issued in the first tranche in 2004 (expense: 5.9 million euros), 109,000 CPUs from the second tranche issued in 2005 (expense: 4.9 million euros) and 120,000 from the third tranche issued in 2006 (expense: 4.5 million euros). The corresponding provision amounted to 25.6 million euros (2005: 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 on 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 (base price) 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. The base prices for the 2005 and 2006 tranches were 66.42 euros and 88.05 euros respectively. We have based the measurement of the provision for this program on achieving intermediate targets. This led to an expense of 1.8 million euros in the fiscal year. The provision at December 31, 2006 for all the tranches issued was 2.0 million euros (2005: 0.2 million euros).

#### (40) Employee numbers

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

##### Employee numbers

	2005	2006
Production and engineering	24,450	23,934
Marketing, selling and distribution	15,228	16,177
Research and development	2,815	2,794
Administration	9,231	8,811
<b>Total</b>	<b>51,724</b>	<b>51,716</b>

#### (41) Value added statement

##### Value added statement in million euros

	2005	in %	2006	in %
<b>Total sales/income</b>	<b>12,236</b>	<b>100.0</b>	<b>13,220</b>	<b>100.0</b>
Other charges				
Cost of materials	5,004	40.9	5,561	42.1
Amortization/depreciation of non-current assets	334	2.7	350	2.6
Other expenses	3,257	26.6	3,489	26.4
<b>Value added</b>	<b>3,641</b>	<b>29.8</b>	<b>3,820</b>	<b>28.9</b>
Paid to				
employees	2,273	62.4	2,351	61.6
central and local government	318	8.7	351	9.2
Providers of capital				
interest expense	280	7.7	247	6.5
shareholders	193	5.3	214	5.6
minority shareholders	13	0.4	16	0.4
<b>Reinvested in the Group</b>	<b>564</b>	<b>15.5</b>	<b>641</b>	<b>16.7</b>

#### (42) 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.

### 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 <sup>1)</sup> 2006	Dec. 31, 2006	Dec. 31, 2006	
Goodwill at book value	3,871	3,782	3,782	Goodwill at book value
Other intangible assets and property, plant and equipment (total)	3,777	3,783	3,783	Other intangible assets and property, plant and equipment (total)
			565	Financial assets
			363	Deferred tax assets
Inventories	1,348	1,325	1,325	Inventories
Trade accounts receivable from third parties	1,995	1,868	1,868	Trade accounts receivable from third parties
Intra-Group trade accounts receivable	775	732		
Other receivables and miscellaneous assets <sup>2)</sup>	420	367	717	Other receivables and miscellaneous assets
			929	Liquid funds/Marketable securities
			14	Assets held for sale
<b>Operating assets (gross)</b>	<b>12,186</b>	<b>11,857</b>	<b>13,346</b>	<b>Total assets</b>
– Operating liabilities	3,588	3,499		
of which				
Trade accounts payable to third parties	1,511	1,494	1,494	Trade accounts payable to third parties
Intra-Group trade accounts payable	775	732		
Other provisions and other liabilities <sup>2)</sup>	1,302	1,273	1,756	Other provisions and other liabilities
<b>Net operating assets</b>	<b>8,598</b>	<b>8,358</b>		
– Goodwill at book value	3,871			
+ Goodwill at cost	4,228			
<b>Capital employed</b>	<b>8,955</b>			

<sup>1)</sup> The annual average is calculated on the basis of the twelve monthly figures.

<sup>2)</sup> Only amounts relating to operating activities are taken into account in calculating net operating assets.

**(43) Information on earnings per share**

The Stock Incentive Plan (Note 39, page 104 ff.) currently results in a dilution of earnings per share of 4 eurocents.

**Earnings per share** in million euros (rounded)

	2005	2006
<b>Net earnings after minority interests</b>	<b>757</b>	<b>855</b>
Dividends ordinary shares	113	125
Dividends preferred shares	77	86
Total dividends	190	211
Retained profit per ordinary share	342	388
Retained profit per preferred share	225	256
<b>Retained profit</b>	<b>567</b>	<b>644</b>
Number of ordinary shares	86,598,625	86,598,625
Dividend per ordinary share	1.30	1.44
Retained profit per ordinary share	3.95	4.48
<b>EPS per ordinary share in euros</b>	<b>5.25</b>	<b>5.92</b>
Number of outstanding preferred shares <sup>1)</sup>	56,921,997	57,271,306
Dividend per preferred share	1.36	1.50
Retained profit per preferred share	3.95	4.48
<b>EPS per preferred share in euros</b>	<b>5.31</b>	<b>5.98</b>
Number of potential outstanding preferred shares <sup>2)</sup>	57,192,167	57,628,356
Dividend per preferred share	1.36	1.50
Retained profit per preferred share	3.92	4.44
<b>Diluted EPS per preferred share in euros<sup>3)</sup></b>	<b>5.28</b>	<b>5.94</b>

<sup>1)</sup> weighted annual average of preferred shares (Henkel buy-back program)

<sup>2)</sup> weighted annual average of preferred shares adjusted for the potential number of shares arising from the Stock Incentive Plan

<sup>3)</sup> based on earnings after minority interests of 854 million euros (IAS 33.59 on share option schemes)

**(44) Information on the cash flow statement**

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 400 million euros (2005: 85 million euros). Of this amount, 4 million euros related to the Laundry & Home Care business sector (2005: 14 million euros), 326 million euros to Cosmetics/Toiletries (2005: 2 million euros), 35 million euros to Consumer and Craftsmen Adhesives (2005: 45 million euros) and 35 million euros to Henkel Technologies (2005: 24 million euros).

The heading "Dividends and interest paid and received" includes dividends from Ecolab Inc. of 24 million euros (2005: 17 million euros).

**(45) Related party transactions**

Information required by § 160(1) No. 8 of the German Stock Corporation Act (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, and
- >> 14 private limited companies set up by members of those families and one limited partnership with a limited company as general partner (GmbH & Co. KG) 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 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 Dr. 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 3.03 percent (2005: 2.31 percent). The average total amount of capital advanced to the Henkel Group in fiscal 2006 was 436 million euros (2005: 377 million euros), while the balance at December 31, 2006 was 467 million euros (December 31, 2005: 376 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 6.5 million euros (2005: 6 million euros), while the balance at December 31, 2006 was 2 million euros (December 31, 2005: 4 million euros) at an average interest rate of 3.03 percent (2005: 2.31 percent).

At December 31, 2006, a loan to a member of the Management Board for 301,000 euros was included in miscellaneous assets. The loan is secured by a real estate mortgage and has a residual term of 3 years. During the fiscal year, mortgage payments totaling 100,000 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.

#### **(46) Emoluments of the corporate bodies**

The total remunerations of the members of the Supervisory Board amounted to 1,163k euros (2005: 1,256k euros), those of the Shareholders' Committee amounted to 2,273k euros (2005: 2,350k euros) and those of the Management Board amounted to 15,431k euros (2005: 14,153k euros). For further details regarding the emoluments of the corporate bodies, see the Remuneration Report on page 22.

#### **(47) Declaration of compliance with the German Corporate Governance Code**

In February 2006, 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 Stock Corporation Act (AktG). The declaration has been made permanently available to shareholders on the Company website: [www.henkel.com/ir](http://www.henkel.com/ir).

#### **(48) Principal subsidiary companies and groups of companies**

Details relating to the investments held by Henkel KGaA and the Henkel Group are provided in a separate schedule which is available via the Commercial Register and can also be inspected at the Annual General Meeting.



**(49) Information on shares in affiliated companies and other investments**

In each of the following companies, Henkel holds, either directly or indirectly, not more than half of the shares, but has the power to govern the financial and operating policies of the company. Therefore the company is consolidated.

			Holding in %
<b>Austria</b>	Biozym GmbH	Kundl	49.00
<b>Bahrain</b>	Henkel Adhesives Middle East E.C.	Bur Dubai	50.00
<b>Egypt</b>	Henkel Adhesives Trading Egypt SAE	Cairo	50.00
	Henkel Polybit Egypt Co. Ltd.	Badr City	49.00
	Henkel Technologies Egypt SAE	Cairo	50.00
<b>India</b>	Henkel Marketing India Ltd.	Hyderabad	48.94
<b>Lebanon</b>	Detergenta Holding S.A.L.	Beirut	49.97
	Henkel Lebanon S.A.L.	Beirut	50.00
<b>Mauritius</b>	Henkel Chemicals (Mauritius) Ltd.	Port Louis	38.30
<b>Saudi Arabia</b>	Ashwa Technologies Ltd.	Jeddah	50.00
	Saudi Arabian Adhesives Factory Ltd.	Riyadh	50.00
<b>Syria</b>	Henkel Syria S.A.S.	Aleppo	49.97
<b>Tunisia</b>	Société d'Importation et de Ventes d'Article Chimiques	Tunis	24.99
<b>Turkey</b>	Eczacibasi Schwarzkopf Kuafor Urunleri Pazarlama A.S.	Istanbul	50.00
<b>United Arab Emirates</b>	Henkel Polybit Industries Co. Ltd.	Umm Al Quwain	49.00
	Roof Care Co.	Sharjah	49.00

The following dormant companies or companies with insignificant operations are immaterial to the net assets, financial position and results of operations of the Group and are stated at amortized cost:

			Holding in %
<b>Argentina</b>	The Dial Corporation Argentina S.A.	Buenos Aires	100.00
<b>Austria</b>	Persil-Alttersunterstützung GmbH	Vienna	100.00
	Schwarzkopf & Henkel GmbH	Vienna	100.00
<b>Bermuda</b>	Henkel Overseas Ltd.	Hamilton	100.00
<b>China</b>	Henkel Loctite Hong Kong Ltd.	Hong Kong	100.00
	Shanghai Henkel Xianghua Adhesives Co. Ltd.	Shanghai	70.00
<b>Egypt</b>	Henkel Building Chemicals Egypt SAE	Alexandria	72.69
<b>Germany</b>	CHEMPHAR Handels- und Exportgesellschaft mbH	Hamburg	100.00
	Clynol GmbH	Hamburg	100.00
	Entsorgungszentrum Düsseldorf Süd GmbH	Düsseldorf	50.00
	Erste Deutsche Walfang GmbH	Hamburg	100.00
	Fandus Grundstücksvermietungsgesellschaft mbH & Co. Objekt Willich KG	Düsseldorf	68.62
	Fix Point Vertriebs GmbH	Dinslaken	73.00
	Forstverwaltung Brannenburg Geschäftsführungs-GmbH	Düsseldorf	100.00
	Forstverwaltung Brannenburg GmbH & Co. OHG	Brannenburg	100.00
	Hans Schwarzkopf & Henkel Verwaltungs-GmbH	Grünwald	100.00
	Henkel AWARE Technologies GmbH	Heidelberg	51.00
	Henkel Erste Verwaltungsgesellschaft mbH	Düsseldorf	100.00
	Henkel Holding Verwaltungs-GmbH	Düsseldorf	100.00
	Henkel Wasch- und Reinigungsmittel GmbH	Düsseldorf	100.00
	Henkel Zweite Verwaltungsgesellschaft mbH	Düsseldorf	100.00

			Holding in %
<b>Germany (continued)</b>	Indola GmbH	Hamburg	100.00
	MATERNA Grundstücks- Vermietungsgesellschaft mbH & Co. OHG	Schönefeld	99.00
	Phenion GmbH & Co. KG	Düsseldorf	100.00
	Phenion Verwaltungs GmbH	Düsseldorf	100.00
	Schwarzkopf & Henkel GmbH	Düsseldorf	100.00
	Schwarzkopf & Henkel Production Management GmbH	Düsseldorf	100.00
	Sovereign Specialty Chemicals GmbH	Düren	100.00
	SusTech GmbH & Co. KG	Darmstadt	61.96
	SusTech Verwaltungs GmbH	Darmstadt	64.29
<b>Great Britain</b>	Clynol Ltd.	Hatfield	100.00
	Kelsey Industries	Hatfield	100.00
	Schwarzkopf Ltd.	Aylesbury	100.00
	Ten Lifestyle Management Ltd.	London	50.24
<b>Iran</b>	Iran Henkel AG	Tehran	100.00
	Pharco Chemie AG	Tehran	100.00
<b>Ireland</b>	Chambois Ltd.	Cork	100.00
	Loctite (Ireland) Asia Pacific Ltd.	Dublin	100.00
	Loctite (Ireland) Holding Ltd.	Dublin	100.00
<b>Kazakhstan</b>	Henkel Bautechnik Kazakhstan TOO	Almaty	60.00
	Henkel Central Asia & Caucasus TOO	Almaty	100.00
<b>Philippines</b>	Novamax Technologies (Philippines). Inc.	Manila	100.00
<b>Singapore</b>	Sovereign Specialty Chemicals (S) Pte. Ltd.	Singapore	100.00
<b>Slovenia</b>	Henkel Storitve d.o.o.	Maribor	100.00
<b>Switzerland</b>	Steinfels Haushalt AG	Pratteln	100.00
<b>Taiwan</b>	Accurus Scientific Co. Ltd.	Tainan	99.89
<b>USA</b>	Dial Argentina Holdings. Inc.	Phoenix	100.00
	FP Chemical Products L.P.	Wilmington	100.00
	Pure & Natural Company	Phoenix	100.00
<b>Zimbabwe</b>	Henkel Zimbabwe (Private) Ltd.	Harare	76.60

Henkel holds more than 20 percent but less than 50 percent in the following companies, either directly or indirectly. As the holdings are immaterial to the net assets, financial position and results of operations of the Group, they are stated at amortized cost.

			Holding in %
<b>France</b>	Natural Implant S.A.	Brest	24.79
<b>Germany</b>	DATASOUND Gesellschaft zur Entwicklung und Vermarktung digitaler Audio- und Informationssysteme mbH	Ludwigshafen	24.98
	Nordic Adhesive Technology GmbH	Buxtehude	24.80
<b>Great Britain</b>	Time Energy Network Ltd.	London	44.26
<b>Guatemala</b>	Tanques del Atlantico S.A.	Guatemala City	30.00
<b>Mexico</b>	Hysol Indael de Mexico S.A. de C.V.	Mexico City	49.00
<b>USA</b>	AMT Capital L.P.	Dallas	20.90

**(50) Shares in associated companies****Ecolab Inc., St. Paul, Minnesota, USA**

Product groups: Products and services for industrial and institutional hygiene, catering, food and 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 28.9 percent.
- >> We expect a 7 percent increase in sales to 4.9 billion US dollars in fiscal 2006.
- >> The share price of Ecolab Inc. rose by 24.6 percent in 2006. The market value of our investment at December 31, 2006 was 3,286 million US dollars (2005: 2,637 million US dollars). This is equivalent to 2,495 million euros (2005: 2,235 million euros).
- >> We anticipate that actuarial losses of 200 million US dollars will be offset in equity in the financial statements of Ecolab Inc. We have taken this into consideration when accounting for Ecolab Inc. using the equity method.

**(51) Auditors' fees and services**

The fees charged for the services of the auditors KPMG in the 2005 and 2006 fiscal years were as follows:

**Type of fees** in million euros

	2005	2006
Audit (including outlays)	8.3	8.0
Audit-related services	0.3	0.4
Tax advisory services	0.1	0.0
Other services	0.3	0.2
<b>Total</b>	<b>9.0</b>	<b>8.6</b>

**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 audits in connection with information risk management and of compliance with contractual terms and conditions.

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

**(52) Events after the balance sheet date**

We announced the closure of our Spanish cosmetics site in La Coruña to employee representatives at the end of December 2006 and to the workforce at the beginning of January 2007.

At the end of January, Henkel North America decided to analyze the effectiveness and efficiency of the processes in the finance, personnel and purchasing departments and to take appropriate measures as a result. The investigation will also examine the concentration of activities in Shared Service Centers and review the relocation to appropriate sites outside North America, including site closures.

## Recommendation for the Approval of the Annual Financial Statements and the 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 363,679,361.44 euros for the year ended December 31, 2006 be applied as follows:

a) Payment of a dividend of 1.44 euros per ordinary share on 86,598,625 shares	= 124,702,020.00 euros
b) Payment of a dividend of 1.50 euros per preferred share on 59,387,625 shares	= 89,081,437.50 euros
c) Carry-forward of the remaining amount of	149,895,903.94 euros
to the following year (retained earnings)	
	<u>363,679,361.44 euros</u>

Treasury stocks are not entitled to dividend. The amount in unappropriated profit which relates to the treasury stock held by the Company at the date of the Annual General Meeting is carried forward to the following year.

Düsseldorf, January 30, 2007

The personally liable managing  
partners of Henkel KGaA

Prof. Dr. Ulrich Lehner (Chairman)  
Dr. Jochen Krautter

# Annual Financial Statements of Henkel KGaA (summarized)<sup>1)</sup>

## Statement of Income in million euros

	2005	2006
<b>Sales</b>	<b>2,653</b>	<b>2,911</b>
Cost of sales	-1,798 <sup>2)</sup>	-1,956
<b>Gross profit</b>	<b>855</b>	<b>955</b>
Selling, research and administrative expenses	-1,014 <sup>2)</sup>	-1,183
Other income (net of other expenses)	235 <sup>2)</sup>	296
<b>Operating profit</b>	<b>76</b>	<b>68</b>
<b>Financial items</b>	<b>373</b>	<b>294</b>
<b>Profit on ordinary activities</b>	<b>449</b>	<b>362</b>
Remeasurement of pension provisions	-502	-
Change in special accounts with reserve element	13	23
<b>Earnings before tax</b>	<b>-40</b>	<b>385</b>
Taxes on income	-47	-22
<b>Net loss/earnings</b>	<b>-87</b>	<b>363</b>
Transfer from revenue reserves	280	-
<b>Unappropriated profit<sup>3)</sup></b>	<b>193</b>	<b>363</b>

## Balance Sheet in million euros

	2005	2006
Property, plant & equipment and intangible assets	654	671
Financial assets	7,949	8,047
<b>Non-current assets</b>	<b>8,603</b>	<b>8,718</b>
Inventories	176	214
Receivables and miscellaneous assets/ Deferred charges	2,625	3,454
Marketable securities	163	129
Liquid funds	72	9
<b>Current assets</b>	<b>3,036</b>	<b>3,806</b>
<b>Total assets</b>	<b>11,639</b>	<b>12,524</b>
<b>Shareholders' equity</b>	<b>3,783</b>	<b>3,956</b>
Special accounts with reserve element	248	241
Provisions	2,349	2,425
Liabilities	5,259	5,902
<b>Total equity and liabilities</b>	<b>11,639</b>	<b>12,524</b>

<sup>1)</sup> 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; copies can be obtained from Henkel KGaA on request.

<sup>2)</sup> The current restructuring costs from 2005 have been allocated to the appropriate individual functions in the statement of income.

<sup>3)</sup> Statement of income figures are rounded; unappropriated profit 193,345,382.50 euros for 2005 and 363,679,361.44 euros for 2006.

## 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 Financing 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 and principles and strategies developed within the Company. Compliance with these principles is continually monitored by the Management Board. Compliance with regulations 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 standard 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 Stock Corporation Act (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 117. The annual financial statements, the consolidated financial statements, the management reports for Henkel KGaA and the Group and the audit reports will be discussed in detail, with the auditors present, at a meeting of the Supervisory Board held for that purpose.

Düsseldorf, January 30, 2007

The Management Board of Henkel KGaA

# Auditors' Report

We have audited the consolidated financial statements prepared by Henkel Kommanditgesellschaft auf Aktien (Henkel KGaA), 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, 2006 to December 31, 2006. 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 expectations 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 the entities to be included in the 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 the Group's future development.

Düsseldorf, January 30, 2007

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Rüdiger Reinke  
Wirtschaftsprüfer

Michael Gewehr  
Wirtschaftsprüfer

# Corporate Management of Henkel KGaA

Boards/memberships as defined by § 125 (1), sentence 3, German Stock Corporation Act (AktG)  
as at January 2007

## Supervisory Board

	Membership of statutory supervisory boards	Membership of comparable supervisory bodies
<b>Dipl.-Ing. Albrecht Woeste</b> Chairman, Private Investor, Düsseldorf Born in 1935 Member since June 27, 1988		
<b>Winfried Zander</b> Vice-Chairman, Chairman of the Works Council of Henkel KGaA, Düsseldorf Born in 1954 Member since May 17, 1993		
<b>Dr. Friderike Bagel</b> Attorney at Law/Tax Consultant, Cologne Born in 1971 Member since April 18, 2005		
<b>Engelbert Bäßler</b> Member of the Works Council of Henkel KGaA, Düsseldorf Born in 1951 Member since March 1, 2005		
<b>Hans Dietrichs</b> Chairman of the Works Council of Henkel KGaA, Genthin Born in 1943 Member since May 4, 1998		
<b>Benedikt-Joachim Freiherr von Herman</b> (until April 10, 2006) Forester, Wain Born in 1941 Member since December 3, 1990		Holzhof Oberschwaben eG
<b>Bernd Hinz</b> Vice-Chairman of the Works Council of Henkel KGaA, Düsseldorf Born in 1951 Member since May 4, 1998		
<b>Thomas Manchot</b> (since April 10, 2006) Private Investor, Düsseldorf Born in 1965 Member since April 10, 2006		
<b>Prof. Dr. Dr. h.c. mult. Heribert Meffert</b> Former Director of the Institute of Marketing, University of Münster, Born in 1937 Member since May 4, 1998	BASF Coatings AG, Kaufhof Warenhaus AG	UNIPLAN International GmbH & Co. KG



**Supervisory Board** (continued)

	<b>Membership of statutory supervisory boards</b>	<b>Membership of comparable supervisory bodies</b>
<b>Andrea Pichottka</b> Secretariat of the General Executive of IG Bergbau, Chemie, Energie, responsible for research/technology, women/equal opportunities, employees, advertising Hanover Born in 1959 Member since October 26, 2004	Siltronic AG	
<b>Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber</b> Former Federal Minister for Research and Technology, Frankfurt/Main Born in 1935 Member since 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
<b>Heinrich Thorbecke</b> (until April 10, 2006) Private Investor, St. Gallen Born in 1936 Member since May 4, 1998		In Gassen Immobilien AG, Switzerland, Intervalor Holding AG, Switzerland, Kursana AG, Switzerland
<b>Konstantin von Unger</b> (since April 10, 2006) Founding Partner Blue Corporate Finance, London Born in 1966 Member since April 10, 2006		Ten Lifestyle Management Ltd., UK
<b>Michael Vassiliadis</b> Member of the Executive Committee of IG Bergbau, Chemie, Energie, Hanover Born in 1964 Member since May 4, 1998	BASF AG, K + S AG (Vice-Chairman), K + S Kali GmbH (Vice-Chairman), STEAG AG	
<b>Bernhard Walter</b> Former Chairman of Dresdner Bank AG, Frankfurt/Main Born in 1942 Member since May 4, 1998	Bilfinger Berger AG (Chairman), DaimlerChrysler AG, Deutsche Telekom AG, Staatliche Porzellan-Manufaktur Meissen GmbH (Vice-Chairman), Wintershall AG (Vice-Chairman)	
<b>Werner Wenning</b> Chairman of the Executive Board of Bayer AG, Leverkusen Born in 1946 Member since April 14, 2003	Bayer Group mandate: Bayer Schering Pharma AG	
<b>Dr. Anneliese Wilsch-Irrgang</b> Chemist, Düsseldorf Representative of the Senior Staff of Henkel KGaA Born in 1958 Member since May 4, 1998		
<b>Rolf Zimmermann</b> Member of the Works Council of Henkel KGaA, Düsseldorf Born in 1953 Member from October 9, 2002		

**Shareholders' Committee**

	<b>Membership of statutory supervisory boards</b>	<b>Membership of comparable supervisory bodies</b>
<b>Dipl.-Ing. Albrecht Woeste</b> Chairman, Private Investor, Düsseldorf Born in 1935 Member since June 14, 1976		
<b>Stefan Hamelmann</b> Vice-Chairman Private Investor, Düsseldorf Born in 1963 Member since May 3, 1999		Ecolab Inc., USA
<b>Dr. h.c. Christoph Henkel</b> Vice-Chairman Managing Partner Canyon Equity LLC, San Francisco Born in 1958 Member since May 27, 1991		
<b>Dr. Paul Achleitner</b> Member of the Board of Allianz SE, Munich Born in 1956 Member since April 30, 2001	Bayer AG, RWE AG Allianz Group mandates: Allianz Deutschland AG, Allianz Global Investors AG, Allianz Lebensversicherungs AG	Allianz Group mandates: Allianz Elementar Versicherungs-AG, Austria (Chairman), Allianz Elementar Lebensversicherungs-AG, Austria (Chairman)
<b>Dr. Simone Bagel-Trah</b> Private Investor, Düsseldorf Born in 1969 Member since April 18, 2005		
<b>Dr. h.c. Ulrich Hartmann</b> Chairman of the Supervisory Board of E.ON AG, Düsseldorf Born in 1938 Member since May 4, 1998	Deutsche Bank AG, Deutsche Lufthansa AG, E.ON AG (Chairman), Hochtief AG, IKB Deutsche Industriebank AG (Chairman), Münchener Rückversicherungs- Gesellschaft AG	
<b>Burkhard Schmidt</b> Managing Director of Jahr Vermögensverwaltung GmbH & Co. KG, Hamburg Born in 1960 Member since June 23, 1999	Druck- und Verlagshaus Gruner + Jahr AG	
<b>Konstantin von Unger</b> Founding Partner Blue Corporate Finance, London Born in 1966 Member since April 14, 2003		Ten Lifestyle Management Ltd., UK
<b>Karel Vuursteen</b> Former Chairman of the Executive Board of Heineken N.V., Amsterdam Born in 1941 Member since May 6, 2002		Akzo Nobel nv, Netherlands, Heineken Holding N.V., Netherlands, ING Groep nv, Netherlands
<b>Dr. Hans-Dietrich Winkhaus</b> Former President and Chief Executive Officer of Henkel KGaA Düsseldorf Born in 1937 Member since May 8, 2000	BMW AG, Deutsche Lufthansa AG, Ergo Versicherungsgruppe AG	

**Subcommittees of the Shareholders' Committee**

	<b>Functions</b>	<b>Members</b>
<b>Finance Subcommittee</b>	The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, and risk management in the corporation.	Dr. h.c. Christoph Henkel, Chairman Stefan Hamelmann, Vice-Chairman Dr. Paul Achleitner Burkhard Schmidt Dr. Hans-Dietrich Winkhaus
<b>Human Resources Subcommittee</b>	The Human Resources Subcommittee 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**

	<b>Membership of statutory supervisory boards</b>	<b>Membership of comparable supervisory bodies</b>
<b>Prof. Dr. Ulrich Lehner<sup>1)</sup></b> Chairman Born in 1946 Member since April 1, 1995	E.ON AG, HSBC Trinkaus & Burkhardt AG, Dr. Ing. h.c. F. Porsche AG	Ecolab Inc., USA, Novartis AG, Switzerland
<b>Dr. Jochen Krautter<sup>1)</sup></b> Henkel Technologies Born in 1942 Member since June 15, 1992	BASF Coatings AG	Henkel Corp., USA (Chairman)
<b>Kasper Rorsted</b> Vice-Chairman Human Resources/Logistics/ Information Technologies/ Infrastructure Services Born in 1962 Member since April 1, 2005		Cable & Wireless, Plc., UK, Ecolab Inc., USA, Henkel of America Inc., USA, Henkel Central Eastern Europe GmbH, Austria, Henkel Norden AB, Sweden, The Dial Corp., USA
<b>Alois Linder</b> Consumer and Craftsmen Adhesives Born in 1947 Member since January 1, 2002		Henkel Consumer Adhesives Inc., USA (Chairman), Henkel Corp., USA
<b>Dr. Friedrich Stara</b> Laundry & Home Care Born in 1949 Member since July 1, 2005		The Dial Corp., USA (Chairman), Wiener Städtische Allgemeine Versicherung AG, Austria
<b>Dr. Lothar Steinebach</b> Finance Born in 1948 Member since 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, Türk Henkel Kimya Sanayi ve Ticaret AS, Turkey
<b>Hans Van Bylen</b> Cosmetics/Toiletries Born in 1961 Member since July 1, 2005		Henkel Belgium N.V., Belgium, Henkel Nederland B.V., Netherlands, The Dial Corp., USA

<sup>1)</sup> Personally liable managing partner

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**Operating Management**

<b>Dr. Ramón Bacardit</b> Technologies Research	<b>Bertrand Conquéret</b> Global Purchasing	<b>Norbert Koll</b> Cosmetics Region Germany/ Switzerland/Central Eastern Europe/Russia/CIS/MENA and Export	<b>Peter Ruiner</b> Adhesives for Professionals/ Asia Pacific/MEA
<b>Alain Bauwens</b> Home Care/MENA/ Asia Pacific/ Central America Laundry & Home Care	<b>Jean Fayolle</b> Technologies EMEA/ Latin America	<b>Libor Kotlík</b> Technologies Operations & Supply Chain	<b>Stefan Sudhoff</b> SBU Body Care/Fragrances/ Cosmetics Region South, West Europe/North and Latin America
<b>Wolfgang Beynio</b> Finance/Controlling	<b>Dr. Attilio Gatti</b> Technologies Marketing and Product Development	<b>Andreas Lange</b> Laundry & Home Care West Europe	<b>Günter Thumser</b> Henkel Central Eastern Europe
<b>Dr. Andreas Bruns</b> Infrastructure Services	<b>Dr. Wolfgang Gawrisch</b> Research/Technology	<b>Tina Müller</b> SBU Hair, Skin & Oral Care	<b>Christian-André Weinberger</b> Laundry Care
<b>Pierre Brusselmans</b> Corporate Development	<b>Enric Holzbacher</b> Adhesives for Consumers/West Europe	<b>Dr. Thomas Müller-Kirschbaum</b> R&D/Technology/Supply Chain Laundry & Home Care	<b>Peter Wroblowski</b> Information Technologies
<b>Brad Casper</b> Dial Corporation North America	<b>Dirk-Stephan Koedijk</b> Human Resources		
<b>Julian Colquitt</b> Technologies North America			At January 1, 2007

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**Management Circle | Worldwide**

Giacomo Archi	Pierre Gibaud	Joris Merckx	Dr. Matthias Schmidt
Faruk Arig	Dr. Karl W. Gladt	David Minshaw	Dr. Berthold Schreck
Jan-Dirk Auris	Ralf Grauel	Dr. Clemens Mittelviehhaus	Dr. Hans-Willi Schroiff
Georg Baratta-Dragono	Bartholomew Griffin	Scott Moffitt	Jens-Martin Schwaerzler
Harald Bellm	Peter Günther	Eric Moley	Dr. Johann Seif
Francisco Beltran	Rainer M. Haertel	Juan Morcego	Brian Shook
Paul Berry	Ferdinand Harrer	Georg Müller	Dr. Simone Siebeke
Cedric Berthod	Ludger Hazelaar	Dr. Heinrich Müller	Andrew Smith
Amy Bloebaum	Fridtjof Helemann	Rolf Münch	Bart Steenken
Dr. Joachim Bolz	Michael Hillman	Julio Munoz-Kampff	Dr. Walter Sterzel
Robert Bossuyt	Georg Hoebenstreit	Liam Murphy	Marco Swoboda
Hanno Brenningmeyer	Dr. Alois Hoeger	Christoph Neufeldt	Dr. Boris Tasche
Daniel Brogan	Jos Hubin	Helmut Nuhn	Richard Theiler
Sergej Bykovskikh	Dr. Stefan Huchler	Joseph O'Brien	John Tierney
Marco Cassoli	Dr. Hans-Georg Hundeck	Michael Ogrinz	Mitchell Tinnan
Dundar Ciftcioglu	Dr. Jochen Jacobs	Michael Olosky	Greg Tipsord
Michael James Clarkson	Dr. Joachim Jäckle	Carlos Eduardo Orozco	Thomas Tönnemann
Jürgen Convent	Dr. Regina Jäger	Dr. Uwe Over	Patrick Trippel
Susanne Cornelius	John Kahl	Campbell Peacock	Rainer Tschersig
Paul de Bruecker	Patrick Kaminski	Jerry Perkins	Christian Twehues
Ivan de Jonghe	Peter Kardorff	Thomas Perlitz	Robert Uytendwillegen
Hermann Deitzer	Dr. Klaus Kirchmayr	Norbert Pestka	Tracy Van Bibber
Serge Delobel	Dr. Wolfgang Klauk	Bruno Piacenza	Amelie Vidal-Simi
Dr. Alexander Ditzte	Carsten Knobel	Jeffrey Piccolomini	Dr. Vincenzo Vitelli
Eric Dumez	John Knudson	Arnd Picker	Ramon Viver
Wolfgang Eichstaedt	Nurierdem Kocak	Michael Prange	Dr. Rainer Vogel
Dr. Horst Eierdanz	Dr. Harald Köster	Dr. Wolfgang Preuß	Dr. Dirk Vollmerhaus
Ashraf El Affi	Peter Kohl	Ernst Primosch	Kim Walker
Stephen J. Ellis	Dr. Werner Krieger	Dr. Volker Puchta	Claus Weigandt
Steven Essick	Thomas-Gerd Kühn	William Read	Andreas Welsch
Charles Evans	Dr. Marcus Kuhnert	Dr. Michael Reuter	Klaus-Dieter Weyers
Dr. Norbert Fedtke	Luis Carlos Lacorte	Robert Risse	Dr. Jürgen Wichelhaus
Thomas Feldbrügge	Tom Linckens	Gabriele Rusconi	Dr. Hans-Christof Wilk
Dr. Peter Florenz	Sammy Loutfy	Jean Baptiste Santoul	Dr. Rudolf Wittgen
Dr. Thomas Foerster	Oliver Luckenbach	Anavangot Satishkumar	
Holger Gerdes	Dr. Carlo Mackrodt	Wolfgang Schäufele	
Roberto Gianetti	Dr. Klaus Marten	Rolf Schlue	
	Lutz Mehlhorn	Aloys Schmeken	At January 1, 2007

# Financial Highlights by Quarter

in million euros

	1st quarter		2nd quarter		3rd quarter		4th quarter	
	2005	2006	2005	2006	2005	2006	2005	2006
<b>Sales</b>								
Laundry & Home Care	957	1,009	1,012	1,026	1,086	1,050	1,033	1,032
Cosmetics/Toiletries	594	642	684	746	681	742	670	734
Consumer and Craftsmen Adhesives	371	448	427	498	481	536	463	495
Henkel Technologies	758	887	825	899	832	872	851	875
Corporate	57	62	61	61	60	60	71	66
<b>Henkel Group</b>	<b>2,737</b>	<b>3,048</b>	<b>3,009</b>	<b>3,230</b>	<b>3,140</b>	<b>3,260</b>	<b>3,088</b>	<b>3,202</b>
<b>EBIT</b>								
Laundry & Home Care	107	114	103	108	109	125	114	102
Cosmetics/Toiletries	68	74	84	95	80	89	89	101
Consumer and Craftsmen Adhesives	41	44	46	50	54	65	44	50
Henkel Technologies	78	90	92	137	86	74	89	69
Corporate	-29	-27	-29	-31	-29	-32	-35	1
<b>Henkel Group</b>	<b>265</b>	<b>295</b>	<b>296</b>	<b>359</b>	<b>300</b>	<b>321</b>	<b>301</b>	<b>323</b>
<b>Earnings before tax</b>	<b>226</b>	<b>261</b>	<b>271</b>	<b>332</b>	<b>267</b>	<b>298</b>	<b>278</b>	<b>285</b>
<b>Net earnings for the quarter</b>	<b>168</b>	<b>185</b>	<b>201</b>	<b>248</b>	<b>199</b>	<b>217</b>	<b>202</b>	<b>221</b>
<b>Earnings per preferred share</b>								
<b>in euros</b>	<b>1.16</b>	<b>1.27</b>	<b>1.38</b>	<b>1.70</b>	<b>1.36</b>	<b>1.47</b>	<b>1.41</b>	<b>1.54</b>

# Ten-Year Summary

in million euro

	1997	1998	1999	2000	2001	2002	2003	2004	2004 <sup>19)</sup>	2005	2006
Sales	10,259	10,909	11,361	12,779	9,410 <sup>6)</sup>	9,656	9,436	10,592	10,592	11,974	12,740
Operating profit (EBIT)	702	791	857	950	602 <sup>6)</sup>	666	706	800 <sup>18)</sup>	996	1,162	1,298
Earnings before tax	1,001	644	692	816	734 <sup>6)</sup>	664	768	808 <sup>18)</sup>	1,007	1,042	1,176
Net earnings	320 <sup>3)</sup>	372	404	505	476 <sup>7)</sup>	431	530 <sup>12)</sup>	551 <sup>18)</sup>	748	770	871
Earnings after minority interests	287	336	364	468	437 <sup>9)</sup>	435	519 <sup>13)</sup>	550 <sup>18)</sup>	747	757	855
Earnings per preferred share (EPS)	3.76 <sup>4)</sup>	2.33	2.53	3.25	3.50 <sup>9)</sup>	3.06	3.65 <sup>14)</sup>	3.88 <sup>18)</sup>	5.24	5.31	5.98
Total assets	8,905	9,130	9,856	11,382	9,365	8,513	9,362	13,138	13,287	13,944	13,346
Non-current assets	5,040	5,164	5,504	6,295	5,490	4,927	4,723	7,400	7,989	9,065	8,664
Current assets (including deferred tax assets)	3,865	3,966	4,352	5,087	3,875	3,586	4,639	5,738	5,248	4,879	4,682
Debt	6,061	6,301	6,618	7,882	5,761	5,150	5,976	8,937	8,941	8,545	7,799
Shareholders' equity	2,844	2,829	3,238	3,500	3,604	3,363	3,386	4,201	4,346	5,399	5,547
as % of total assets	31.9	31.0	32.9	30.8	38.5	39.5	36.2	32.0	32.7	38.7	41.6
Net return on sales (%) <sup>1)</sup>	5.6	3.4	3.6	4.0	3.6 <sup>11)</sup>	4.5	5.6 <sup>15)</sup>	5.12 <sup>16)</sup>	7.06	6.43	6.84
Return on equity (%) <sup>2)</sup>	13.1 <sup>5)</sup>	13.1	14.3	15.6	13.6 <sup>9)</sup>	12.0	15.8 <sup>16)</sup>	16.1 <sup>18)</sup>	17.2	17.7	16.1
Dividend per ordinary share in euros	0.69	0.79	0.87	1.06	1.06	1.06	1.14	1.24	1.24	1.30	1.44 <sup>10)</sup>
Dividend per preferred share in euros	0.74	0.84	0.93	1.12	1.12	1.12	1.20	1.30	1.30	1.36	1.50 <sup>10)</sup>
Total dividends	104	119	131	157	156	156	167	185	185	193	214 <sup>10)</sup>
Capital expenditures (including financial assets)	2,127	979	746	1,359	664 <sup>6)</sup>	484	580 <sup>17)</sup>	4,628	4,678	1,119	897
Investment ratio as % of sales	20.7	9.0	6.6	10.6	5.3	5.1	6.1	43.7	43.7	9.3	7.0
Research and development costs	238	250	279	320	255 <sup>7)</sup>	259	257	272	272	324	340
Number of employees (annual average)	53,753	56,291	56,620	60,475	47,362 <sup>9)</sup>	47,203	48,328	49,947	49,947	51,724	51,716
Germany	15,138	15,257	15,065	15,408	11,121 <sup>9)</sup>	10,944	10,767	10,488	10,488	10,264	9,995
Abroad	38,615	41,034	41,555	45,067	36,241 <sup>9)</sup>	36,259	37,561	39,459	39,459	41,460	41,721

<sup>1)</sup> net earnings ÷ sales   <sup>2)</sup> net earnings ÷ average equity (from 1997 equity at beginning of year)   <sup>3)</sup> 576 million euros including gain from sale of GFC shareholding (Degussa)   <sup>4)</sup> excluding gain from sale of GFC shareholding, preferred share: 1.99 euros   <sup>5)</sup> excluding gain from sale of GFC shareholding (Degussa)   <sup>6)</sup> continuing businesses   <sup>7)</sup> 541 million euros including net gain from exceptional items   <sup>8)</sup> before exceptional items   <sup>9)</sup> after the sale of Cognis and Henkel-Ecolab: 3.05 euros   <sup>10)</sup> proposed   <sup>11)</sup> net earnings ÷ sales of 13,060 million euros   <sup>12)</sup> net earnings excluding Clorox share buy-back: 500 million euros   <sup>13)</sup> earnings after minority interests excluding Clorox share buy-back: 489 million euros   <sup>14)</sup> before exceptional items in 2003 – sale of participation in Wella, Extended Restructuring measures and Clorox share buy-back: 3.47 euros   <sup>15)</sup> net return on sales excluding Clorox share buy-back: 5.3 percent   <sup>16)</sup> return on equity excluding Clorox share buy-back: 14.9 percent   <sup>17)</sup> excluding Wella proceeds of 280 million euros   <sup>18)</sup> before exceptional items   <sup>19)</sup> restated and comparable

# Credits

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# Calendar

**Annual General Meeting of Henkel KGaA 2007:**  
Monday, April 16, 2007

**Publication of Report  
for the First Quarter 2007:**  
Wednesday, May 2, 2007

**Publication of Report  
for the Second Quarter 2007:**  
Wednesday, August 1, 2007

**Publication of Report  
for the Third Quarter 2007:**  
Wednesday, November 7, 2007

**Fall Press and Analysts' Conference 2007:**  
Wednesday, November 7, 2007

**Press Conference for Fiscal 2007  
and Analysts' Conference 2008:**  
Wednesday, February 27, 2008

**Annual General Meeting of Henkel KGaA 2008:**  
Monday, April 14, 2008

Up-to-date facts and figures on Henkel also  
available on the Internet: [www.henkel.com](http://www.henkel.com)

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