



Statement by Ulrich Lehner, Chairman of the Management Board of Henkel KGaA, presented to the Annual General Meeting on April 10, 2006

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Ladies and gentlemen,
Esteemed shareholders and guests,
Dear friends of Henkel,

Welcome to Düsseldorf and our post-fiscal 2005 Annual General Meeting.

The year 2005 was another successful year for Henkel. Despite widely differing regional market developments, the progress we made in 2005 was substantial. We have improved our competitiveness everywhere and have successfully further expanded our market positions. The decisions we have taken in relation to product policy, investments and acquisitions, and also the restructuring of our businesses and processes, have proven to be correct and successful.

I would like at this point to thank especially our 52,000 employees around the world, whose performance and commitment are the most important factors in Henkel's ongoing success. It is them who – throughout the world – develop, manufacture and market products and services and thus render our success in the markets possible. Thanks also to all other partners in our added-value chain.

Ladies and gentlemen, following a short overview of economic developments in our **regions** and the markets of relevance for us, I will be providing you with a résumé of the performance of our **business sectors**.

In my report, I will be making special mention of the issue of **innovation**. Here we have instituted an initiative with which we intend to further strengthen our leading positions in our markets.

And finally, I would like to update you on our **expectations** for the current financial year.

The **world economy** was robust in 2005. Once again, the US economy was in good shape. Asia, particularly China, continues to exhibit strong growth, and Japan is also climbing out of its economic doldrums. Eastern Europe once again expanded significantly, and Latin America maintained its high level of activity.

In contrast, growth in Western Europe was no more than moderate. In a global comparison, therefore, Europe continues to bring up the rear in the growth stakes: the highest growth rate in Europe during 2005 was achieved by Spain with an increase of 3.3 percent; the UK managed 1.7 percent, France 1.5 percent and Germany just 0.9 percent. Italy fared even worse with growth of just 0.2 percent.

The consumption data reflects a similar situation: private consumption in Western Europe was weak, with Germany's levels stagnating.

By contrast, consumers in the USA, Latin America and Eastern Europe substantially increased their spend. In Asia, however, consumption lagged behind overall economic development.

Let's take a look at our customer industries. Overall, there was an increase in automotive production, with Asia and Latin America making a major contribution and North America, too. In Western Europe, automotive production remained flat.

There were positive developments in the electrical and electronic industries. The paper and packaging industries and the metal industry underwent a slight increase worldwide. In North America and many countries of South East Asia, the construction industry also developed well. In Western Europe, however, there was only a very slight increase in building activity, while Germany suffered a further decline.

Given these circumstances, it is all the more gratifying that Henkel has been able to enjoy such competitive successes.

All our business sectors had to contend with high price increases in raw and packaging materials.

Modifications to our formulations and product portfolio enabled us to offset these burdens to some degree. We also implemented price increases to cover the increased costs.

Henkel **sales** increased by 13 percent to almost 12 billion euros. The sources of this rise were organic growth at 3.5 percent, acquisitions contributing 8.5 percent, and 1 percent from foreign exchange factors.

This means, ladies and gentlemen, that we succeeded in achieving the targets announced at the beginning of the year. We are especially encouraged by the fact that all our business sectors and all regions in which we are active exhibited organic growth – that is to say growth generated from within.

Let me start with the **regions**. In **North America** we are now selling more than in our domestic German market. The acquisition of Dial – you will remember that a year ago I spoke at some length on this subject – plus the acquisition of Sovereign and the businesses taken over from Clorox have, as expected, given us a leading position in North America. Sales growth in 2005 in this region amounted to 36.6 percent. With the acquisition of the brands Right Guard, Soft & Dri and Dry Idea we want to further strengthen the platform we have established with the Dial acquisition.

We were also able to achieve double-digit growth rates in the growth regions **Latin America** and **Asia**. Sales increased by 21.1 percent in Latin America, and by 20.2 percent in Asia.

In the **Europe/Africa/Middle East** region, we achieved a sales increase of 5.7 percent. The picture provided by this region is very mixed. In Eastern Europe and in the Middle East, we achieved double-digit increases. Developments in Western Europe, on the other hand, were more static. Even in Western Europe, which remained weak, we achieved a slight increase in sales.

As you can see, ladies and gentlemen, the regional developments experienced thoroughly validate our strategy of expanding our presence in the profitable North American market and utilizing the potential available to us in the growth regions Asia, Latin America and Eastern Europe. However, we have no intention of neglecting Western Europe and our German domestic market. In Germany, particularly, we have shown that we can be successful even under such difficult economic conditions.

I will go into this in more detail when I come to the business sectors.

If you require more information, I would refer you to our comprehensive annual report, available since the middle of February, in which we provide a detailed appraisal of our business strategies.

What, then, were the **key financials** for fiscal 2005?

We increased **operating profit (EBIT)** by 16.7 percent from 996 to 1,162 million euros, with all our business sectors and regions contributing to this increase.

Return on sales (EBIT) rose by 0.3 percentage points to 9.7 percent.

We improved the **return on capital employed (ROCE)** by 0.3 percentage points to 13.3 percent.

Net earnings increased by 2.9 percent from 748 to 770 million euros. After deducting minority interests, net earnings were 757 million euros.

Earnings per preferred share (EPS) improved from 5 euros 24 cents to 5 euros 31 cents.

In view of these positive developments, the personally liable partners, the Shareholders' Committee and the Supervisory Board propose to the Annual General Meeting that it approve an increase in **dividend** of 6 cents per share, giving a payout of 1 euro 36 cents per preferred share and 1 euro 30 cents per ordinary share.

As you see, ladies and gentlemen, this yields a distribution ratio consistent with the trend of past years. Since going public in 1985, our dividend payout has regularly increased year-on-year and has never registered a decline. This ensures both that our stockholders receive an appropriate share of the profits generated each financial year, and that we are able to continuously increase shareholder value by constantly strengthening our investment capability.

Since going public in 1985, the Henkel preferred share – supposed that the dividends have been re-invested in further share purchases – has enjoyed an average annual yield of 9.7 percent. This yield is higher than that of the DAX over the same period.

Implementation of the efficiency-enhancing measures initiated in 2004 constituted a further important area of activity in the year under review and we duly succeeded in achieving the targeted savings of around 60 million euros for the year. In 2006, we expect a further 55 million euros in savings to accrue from these measures.

Following the major **acquisitions** of the previous years, in 2005 we concentrated on supplementary and complementary company purchases for the purpose of regionally expanding our businesses. A detailed list of the acquisitions is provided in the front section of our Annual Report.

Let me now deal with the individual business sectors in more detail, starting with our **Laundry & Home Care** division.

Ladies and gentlemen, we are now finding that customers and consumers are exhibiting renewed appreciation of brands and quality. This is due not least to our increased advertising and communication activities in the particularly competitive region of Western Europe.

There was less price sensitivity but a high level of consumer interest in innovations in the household cleaner segment than in the case of detergents and laundry care products.

Our markets in Eastern Europe developed particularly well, as did Turkey, China, India and Mexico.

Despite the rather weak developments encountered in Western Europe, the world market for laundry and home care products increased by around 2 percent in the year under review. With this market once again picking up, we succeeded in achieving above-average growth and expanding our market shares.

At 4,088 million euros, **sales** increased by 13 percent above the prior-year figure. Organic growth amounted to 3.0 percent.

Operating profit rose by 23.7 percent to 433 million euros, this increase being due particularly to the businesses acquired from Dial and Clorox.

As a further indication of the success engendered by these acquisitions, **return on sales** improved significantly by 0.9 percentage points to 10.6 percent.

Despite the rise in operating profit, **return on capital employed** was slightly down at 13.6 percent due to the increase in the capital base resulting from the acquisitions made.

With a growth rate of less than 2 percent, the world cosmetics market slowed down somewhat in 2005. Our **Cosmetics/Toiletries** business sector succeeded in gaining market shares in a highly competitive Western European market in which expenditure on hair cosmetics and body care products was down. We were

especially successful in winning further market share in the German market. Our worldwide salon business also outperformed the global market.

Sales in 2005 increased by 6.2 percent to 2,629 million euros, with organic growth at 1.3 percent.

At 321 million euros, **operating profit** was 10.5 percent above the comparable prior-year figure, with our efficiency-enhancing measures having a particularly positive effect.

Return on sales rose by 0.5 percentage points to 12.2 percent.

Return on capital employed improved to 14.7 percent.

The picture at **Consumer and Craftsmen Adhesives** was similar to that of the other business sectors: minimal growth in the traditional European core markets, strong growth in Eastern Europe and Asia. Overall, the markets served by the Adhesives division grew by slightly more than 2 percent worldwide. With a highly commendable organic growth rate of 5 percent, the business sector was therefore able to strengthen and expand its world-leading position.

Sales in 2005 grew by 20.5 percent to 1,742 million euros.

Operating profit improved by 9.7 percent to 185 million euros.

Unexpectedly high cost increases in raw and packaging materials, which we were only able to pass to a limited extent and with some delay, meant that **return on sales** declined to 10.6 percent.

Owing to the acquisitions-related high capital base, **return on capital employed** fell to 15.6 percent.

In the year under review, all the markets of our **Henkel Technologies** business sector underwent a degree of growth. Both the international automotive industry, one of the major consumers of our products and services, and also the electrical and electronics industries expanded on a global scale, with machine construction also increasing volume. Growth in the paper and packaging industry was, however, no more than moderate. Henkel Technologies is the world market leader in its sector, a position that it was able to further extend – not least by generating an organic growth rate of 5.5 percent.

With **sales** at 3,266 million euros, the division exceeded the previous year by 17 percent.

Operating profit increased by 15.9 percent over the prior-year figure to 345 million euros.

As Henkel Technologies was able to pass on to its customers a major portion of the substantial increase in raw material prices sustained, **return on sales**, at 10.6 percent, remained roughly at the level of the previous year. Meanwhile, **return on capital employed** improved by 1.5 percentage points to 14.7 percent.

Ladies and Gentlemen, our latest Annual Report is entitled “Henkel – World of Innovation”.

The success of our businesses since the company was founded more than 130 years ago has, of course, essentially been due to **innovations** from which we have succeeded in creating our strong brands and high-performance technologies. Innovation enables us to distinguish ourselves from our competition and to generate new growth.

2005 was once again characterized by a large number of innovations from the house of Henkel.

Allow me to mention a few:

- Bref Multi-Degreaser – a highly effective multi-purpose degreasing product able to tackle even the toughest stains throughout the house;
- Fa Yogurt – the first shower gel with yogurt protein, an unusual idea that has brought considerable success;
- Pattex Assembly Adhesive – a removable multi-purpose assembly adhesive with strong bonding power that can be detached without causing surface damage;
- Terokal – a structural adhesive based on epoxy resins used primarily in automobiles to enhance crash safety.

You will find a comprehensive overview of these innovations in the Annual Report.

Our **Central Research** unit develops basic technologies for new products and production processes which are then developed into new products by the business sectors.

This unit again achieved some outstanding results in 2005, several of which were recognized with our internal “Research/Technology Invention Award” that has been in existence now for two years.

Each of the prize-winning projects provides Henkel with future potential for business development or cost reduction:

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

We invested a total of 324 million euros in **research and development** in 2005. Compared with the previous year, this represents an increase of over 19 percent and underlines the importance that we attach to this activity.

However, there is a further important reason why we are giving particular emphasis to the subject of innovation this year. Our objective is to identify the wishes and needs of our customers at an early stage – and then to convert this knowledge into new products.

We have declared 2006 our “Year of Innovation”. This will provide a platform for a comprehensive global process at Henkel aimed at changing our approach and attitudes. We are encouraging all our employees to take a pro-active role in our innovation processes.

Our objective is not just to increase the number of product innovations but also to initiate process, technological and marketing innovations to create new forms of communication and organization, and to create innovative financial instruments.

The ideas generated can cover everything under the sun provided that they are congruent with our objective as formulated in our Vision, namely to make people’s lives easier, better and more beautiful.

As I say, we want to change our approach and our attitudes, and we intend to include all our employees in this process.

Henkel has long maintained an efficient and high-performing “innovation culture”. We have internal innovation competitions such as the “Fritz Henkel Award for Innovation”, the “Leo Award” for particularly successful marketing activities, and the “Research/Technology Invention Award” that I just mentioned.

We have entered into numerous research and development collaborations with universities and institutions so that our company can benefit to an increasing degree from external know-how and the developments emanating from unconventional ideas.

One example is our SusTech cooperative research arrangement with a group of professors from the University of Darmstadt.

This collaboration has led to the development of a new material, Nanit®active, for treating sensitive teeth.

In addition, we participate in capital funds and also consider participation in start-up companies where this is felt appropriate.

But for us, this is not enough. In future, we intend to become an even more innovative and thus even more successful company. 25 percent of our sales are already being generated with products that have been in the marketplace for three years or less. We want to increase this proportion to 30 percent in 2007. In short: in the coming years, we intend to establish ourselves as an “**Innovation Leader**” in our markets.

I told you that in order to achieve this objective we will need to change our approach. The fact is that Henkel has always been innovative and customer-focused – otherwise we would not have been able to achieve the market successes that we have in the last 130 years.

However, our markets have become shorter-lived and also more intensively competitive. Conventional instruments of market research alone are no longer sufficient in order to determine the future needs and requirements of our customers.

It is no longer sufficient merely to carry out surveys of our customers. We have to put ourselves in their shoes.

For us, success means being told by our customers “You understand us”.

In order to achieve this objective, we will need to provide our employees with the necessary scope for them to develop and utilize new ideas.

We will also need to provide them with more individual freedom and development possibilities; creativity cannot be fostered by laying down rules. All our managers will need to allow their staff and employees a certain degree of organizational autonomy. And this is what I mean when I say to you that we want to change our attitudes and approach.

Ladies and Gentlemen, I would now like to specifically draw your attention to the detailed presentation of our **Corporate Governance** principles provided in our current Annual Report. The Management Board, Shareholders’ Committee and Supervisory Board have adopted the following maxims:

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

You will have regularly experienced for yourselves examples of our active and open communication approach.

As a leading brand marketer, we have long been aware of the need for open communication, and also of the opportunities that such an approach brings.

As shareholders of many years’ standing, Ladies and Gentlemen, you too will know that Henkel has always been keenly aware of our duties to the society in which we live, and to the citizens that populate it, and that we have consistently met the associated obligations. We take such matters extremely seriously.

We have established a **Code of Conduct**, binding on all our employees worldwide, which ensures that we – acting from a common value base – comply with all the statutory regulations and ethical requirements that prevail in the various regions in which we are active.

Thanks to our long-established **Corporate Citizenship Program** – implemented under the “Henkel Smile” umbrella – Henkel has a strong presence in all the various regions as a socially aware, benevolent and benign neighbor.

The name Henkel and the concept of **sustainability** have become inseparable. Henkel was one of the pioneers in environmental awareness and the development of ecologically compatible products.

Value orientation means that for us corporate social responsibility is the basis of value creation.

For Henkel, social responsibility is not a matter of how much money is spent for social purposes. Vital for us is that we have earned our money in the market in a socially responsible way.

Ladies and Gentlemen, I would like now to draw your attention to the agenda of this Annual General Meeting and briefly touch upon those points that go beyond the usual formalities.

Under item 7, we propose a number of new names for election to the Supervisory Board, as already explained by Mr. Woeste.

Item 8 relates to the annually renewable authorization allowing us to acquire our own shares.

Item 9 allows you to resolve on adding to our authorized capital. The authorized capital currently in place will soon be exhausted.

Authorizing a new capital injection will provide us with a cushion of funds, enabling us to cover any future financial requirements that may arise. Such funds have not, however, been earmarked for any specific projects.

Item 10 is concerned with changes and additions to our articles of association as rendered necessary by the Law of Corporate Integrity and Modernization of the Right to Contest Shareholders' Resolutions – known as "UMAG" – which came into force at the end of last year.

Items 11 to 13 ask for your approval of specific control and profit transfer agreements. We have now acquired the remaining shares in SHC Beauty Cosmetics GmbH, a cosmetics marketing company. The control and profit transfer agreement is required in order to establish a single-entity relationship for tax purposes. A similar situation applies to the adhesives business Henkel Loctite-KID GmbH, which has been part of the Group for many years, previously in the legal form of a GmbH & Co. KG – a limited commercial partnership.

Elch GmbH incorporates the former Rhodia sealing compounds business for DIY and craftsmen which we acquired in 2005.

I would refer you to the Invitation to the Annual General Meeting for further details and the proposals for resolution, and also the associated detailed reports issued by the Management Board.

Ladies and Gentlemen, finally I would like to conclude, as I did on the occasion of the post-fiscal 2005 press conference held in February this year, with a summary of our expectations and objectives for fiscal 2006:

We expect 2006 to bring a slight improvement in the underlying market conditions and we intend to achieve a growth rate above the average for our markets.

Henkel expects to achieve organic sales growth of 3 to 4 percent in 2006.

We expect our operating profit – adjusted for foreign exchange – to increase by about 10 percent.

We expect earnings per share to likewise increase by about 10 percent.

To you, our esteemed shareholders, we would like to express our gratitude for the confidence that you have shown in our company, and I am sure that we at Henkel will continue to meet the expectations that you have in our ongoing corporate development.

This information contains forward-looking statements which are based on the current estimates and assumptions made by the corporate management of Henkel KGaA. Statements with respect to the future are characterized by the use of words such as "expect", "intend", "plan", "anticipate", "believe", "estimate", and similar terms. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and results actually achieved by Henkel KGaA and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside Henkel's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. Henkel neither plans nor undertakes to update nay forward-looking statements.