Laundry & Home Care

- Organic sales growth of 2.9 percent
- Adjusted[1] operating profit improved by 1.4 percent to 570 million euros
- Adjusted[1] return on sales increased by 0.2 percentage points to 13.2 percent
- Return on capital employed (ROCE) up 0.9 percentage points to 22.1 percent
- Economic value added (EVA®) further improved to 303 million euros

Top brands

Persil Purex Dixan

Innovations 2011

Perwoll "Re-new Effect"

The innovative "Re-new Effect" in the formulations of our delicates laundry detergents Perwoll "Brilliant Colors," "Intensive Black" and "Radiant White" smoothes roughened textile fibers and brings lustrous life to faded shades.

www.perwoll.de

Persil Black

Persil Black offers the best in Persil cleanness combined with special color protection for black and dark textiles. The liquid detergent is available for sale in Germany, Austria and Switzerland.

www.persil.de

Somat 10

Thanks to its "immediate-active formula," Somat 10 dissolves faster than ever, enabling it to release its cleaning performance right from the start. Somat 10 was launched onto the German market in mid-2011.

www.somat.de

Key financials[*]

in million euros	2010	2011	+/–
Sales	4,319	4,304	–0.3 %
Proportion of Henkel sales	29 %	27 %	–2 pp
Operating profit (EBIT)	542	511	–5.8 %
Adjusted operating profit (EBIT)	562	570	1.4 %
Return on sales (EBIT)	12.6 %	11.9 %	–0.7 pp
Adjusted return on sales (EBIT)	13.0 %	13.2 %	0.2 pp
Return on capital employed (ROCE)	21.2 %	22.1 %	0.9 pp
Economic value added (EVA®)	286	303	5.7 %

pp = percentage points
[*] Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development[*]

in percent	2011
Change versus previous year	–0.3
Foreign exchange	–2.3
Adjusted for foreign exchange	2.0
Acquisitions/divestments	–0.9
Organic	2.9
of which price	1.6
of which volume	1.3

[*] Calculated on the basis of units of 1,000 euros.

[1] Adjusted for one-time charges/gains and restructuring charges.

Economic environment and market position

The world market for laundry and home care products was generally characterized in 2011 by further intensified competition and strong increases in raw material costs. After implementing substantial price decreases in 2010, manufacturers of branded products responded to these developments by moderately raising prices in 2011 in order to partially offset the pressure on margins.

The consumer climate was dampened throughout the world by a high level of uncertainty regarding the further development of the debt crises in Europe and the USA. Similar to the previous year, our relevant markets declined slightly overall. Due to price increases introduced by brand manufacturers, suppliers of private labels were able to slightly expand their market share. This was predominantly due to the behavior of consumers in the countries of Southern Europe, particularly Italy, Spain, Greece and Portugal.

Despite this challenging market environment, in 2011 we again succeeded in significantly outperforming our relevant markets. The increase in our market shares was predominantly due to favorable developments in Europe and a noticeable improvement of our business in North America. Again in 2011, the mature markets of Western Europe and North America were characterized by a decline in growth and consumer reticence. By contrast, the German market grew slightly, faring better than all the other countries of Western Europe. Meanwhile, the US market declined significantly. We were, however, able to increase our shares in both the Western European and the North American markets. The market share gains in Germany were particularly noticeable. After the virtual stagnation of the previous year, the Eastern Europe region returned to moderate growth, with rapid expansion in the Russian and Turkish markets driving developments. In a highly competitive environment, we succeeded in further expanding our market position in Eastern Europe, reaching new highs in terms of market share. The Africa/Middle East region was hit by political unrest during the first half of the year, although recovered significantly in the course of the second half. The Latin American market recorded growth and we were able to consolidate our market shares here and in South Korea, our only market in the Asia-Pacific region.

Business activity and strategy

The business sector is globally active in the Laundry and Home Care branded consumer goods businesses. The Laundry business includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers and laundry care products. The portfolio of our Home Care business encompasses hand-dishwashing and machine-dishwashing products, cleaners for bath and WC applications, and household, glass and specialty cleaners. We also have a market presence in selected regions with air fresheners and insecticides for household applications.

Our aim is to continue generating profitable growth through the organic expansion of our continuing operations. We therefore intend to pursue both sustainable market share gains and further margin improvements. Based on our leading positions in the profitable mature markets of Western Europe and North America, we plan to further expand the share of sales of our emerging markets, particularly Eastern Europe, Africa/Middle East and Latin America. We intend to leverage the dynamics of these emerging markets in order to accelerate the growth of our portfolio. We also endeavor to further increase our market share in these regions and raise profitability to the higher level of the mature markets.

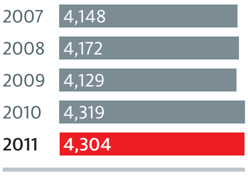
Strong brands and innovations offering consumers added value provide the basis for our strategy of profitable growth. Last year showed once again that the launch of successful products can make a positive contribution, particularly under challenging economic and market conditions. It therefore remains our objective to maintain an innovation rate[1] of at least 40 percent. In 2011, we were able to increase it to 41 percent. Through central and even more efficient management of our innovation process and with deepened insights into the purchasing habits of consumers, we are able to quickly identify and respond to consumer trends and effectively convert these into new products. By prioritizing product categories and centrally steering our global brand portfolio, we are able to direct our investments toward those segments that offer growth and profitability, enabling us to generate disproportionately strong growth with our most important brands and market segments. In 2011, we generated

41%
innovation rate.

[1] Percentage share of sales generated with new products launched onto the market within the last three years.

Sales

in million euros



+2.9 %

organic sales growth in a slightly declining world market.

81 percent of our sales with our top ten brand clusters [1].

Sales and profits

Nominally, sales declined slightly by 0.3 percent to 4,304 million euros for the year. Organically – i.e. after adjusting for foreign exchange and acquisitions/divestments – we succeeded in increasing sales by 2.9 percent, significantly outstripping the slightly declining development of our relevant markets. Despite the difficulties presented by the market environment, we were able to implement price increases for our products, particularly in the second half of the year, thus offsetting a significant portion of the material price increases. Our average selling prices rose by 1.6 percent, while volume increase contributed 1.3 percent to the business sector's organic growth. In determining the price effect, we do not account for the positive structural effect arising from the launch of new products, but instead include it under volume.

All our regions contributed to the positive business performance achieved. Western Europe posted an increase in organic sales, benefiting significantly from our very good performance in Germany. In North America, we were able to slightly increase sales in a highly competitive and appreciably declining market. Developments in our emerging markets were positive across the board. Supported in particular by rapid expansion in Russia and Turkey, sales in Eastern Europe significantly increased organically. In contrast, growth in some other core countries of Eastern Europe was hampered by market decline. While our business in the Africa/Middle East region was adversely affected by the political unrest in the first half of the year, we succeeded in significantly accelerating business expansion during the second half, enabling us to register good growth in the mid-single-digit range for the year as a whole. Our business in Latin America generated high single-digit growth, with the launch of our top brand Persil making a significant contribution and triggering our entry into the premium segment for laundry care products in Mexico. In Asia, organic sales were slightly up, despite the exit from our Philippines business in the previous year.

Operating profit (EBIT) decreased by 5.8 percent compared to the previous year, due in particular to significantly higher restructuring charges occurring in conjunction with the realignment of the business sector. In the course of streamlining our portfolio, we disposed of our branded consumer goods business in India in the second quarter of 2011, generating a gain from the transaction. Adjusted operating profit rose by 1.4 percent and adjusted return on sales improved by 0.2 percentage points, from 13.0 percent in 2010 to 13.2 percent in 2011.

Fiscal 2011 was generally characterized by high raw material price increases. However, with price increases of our own, particularly in the second half of the year, and our ongoing measures to reduce costs and increase efficiency in both production and supply chain, we were able to extensively offset the negative impact on gross margin caused by the strong increase in material costs. We also continued our strict cost management approach in other areas, likewise contributing to an improvement in margin. A decline in advertising spend was another characteristic feature of the market in 2011. Against this background, we kept our share of advertising/share of market ratio [2] constant.

Return on capital employed (ROCE) rose by 0.9 percentage points to 22.1 percent. This improvement is due to a significant reduction of our capital employed. We continued our focus on managing net working capital. As a proportion of sales, this amounted to –2.4 percent and was thus below the already very low level of the previous year. Economic value added (EVA®) rose from 286 million euros in 2010 to 303 million euros.

Business areas

Laundry

The Laundry business posted strong sales performance in 2011, with our strategically important category of heavy-duty detergents generating the greatest growth momentum. The major drivers behind this expansion included the launch of Persil in Mexico and in South Korea. Successful innovations likewise contributed greatly to the growth achieved. For instance, we introduced Persil Black in Germany, Austria and Switzerland.

[1] A brand cluster comprises several individual local brands which, in terms of their positioning, are comparable to a large international brand. By adopting this approach, we are able to generate high synergies in our marketing mix.

[2] A company's share of total advertising spend in relation to its market share, specific to Henkel's active markets.

Due to its long-term black-boosting formula, this product offers not only optimum washing performance but also exceptional color protection for black and dark apparel. We also newly launched Mega-Caps in a number of core countries in Western Europe. Mega-Caps are water-soluble capsules filled with concentrated laundry liquid. Because they are pre-dosed, Mega-Caps are particularly easy to use and offer superb results with the usual Henkel quality. Plastics consumption with Persil Mega-Caps will significantly decrease compared to conventional detergent bottles, thanks to the use of resealable composite film packaging. We likewise launched a range of innovative specialty detergents for delicates under the Perwoll brand featuring a "Re-new Effect": the formulations of Perwoll "Brilliant Colors," "Intensive Black" and "Radiant White" smooth roughened textile fibers, bringing lustrous life to faded shades.

We succeeded in maintaining the positive trend with our fabric softeners, aided by the launch of Purex Crystals in the USA, and innovative product variants of Vernel in Europe aligned specifically to hygiene and purity. In some of the major countries of Western Europe, we introduced a range of heavy-duty liquid detergents that offer smaller doses for the same performance, thus improving environmental compatibility and reducing packaging and logistics costs.

Home Care

In the Home Care business, sales for 2011 were slightly below the prior-year figure. Although declining overall due to the market entry of new competitors, and a significant drop in demand, our air freshener business in North America registered an upward trend. Conversely, we were able to generate significant revenue increases with our WC products in Europe, due in particular to the major success of Bref "Power Activ" – marketed in Germany under the brand WC Frisch. Our machine-dishwashing products likewise performed well, supported especially by the launch of Somat 10 in Germany. Somat 10 now dissolves twice as fast in the machine, enabling it to release its cleaning performance right from the start. The new "immediate-active formula" also works quickly and powerfully in short and low-temperature wash cycles.

Capital expenditures

The main focus of our investments was on innovations and cost optimization in our production and distribution processes. We also invested in plant safety and environmental systems. Overall, we spent 160 million euros on property, plant and equipment, compared to 83 million euros in 2010. The increase in 2011 is due to a high volume of innovations, particularly in the field of pre-dosed liquid detergent capsules and in WC products.

Outlook

We are confident to continue our positive growth path in 2012 and generate sales growth in the low single-digit percentage range. We expect the rate of increase in raw material prices to decelerate compared to 2011. We will remain firmly focused on maintaining our strict cost discipline, particularly in administration. While increasing the quality of service to our customers, we can further improve our efficiency by grouping activities within our shared service centers. With these measures, we expect adjusted return on sales to increase significantly compared to the previous year (2011 figure: 13.2 percent).

We see opportunities arising from a revival in demand in North America, while the successful launch of further innovations offers additional potential for our businesses. Currently unpredictable relief could also come from the raw materials side.

We see risk arising from a further downturn in the macroeconomic conditions, particularly against the background of the currently uncertain outcome of the prevailing debt crises. Strongly rising unemployment, higher taxes and social contributions, and also the possibility of strikes could adversely affect the consumer climate. Due to uncertainties in relation to price developments on the commodity markets, material prices could rise significantly more than anticipated. We regard unrest in the Africa/Middle East region as a substantial political risk.

Cosmetics/Toiletries

- Organic sales growth of 5.4 percent
- Adjusted[1] operating profit improved by 10.5 percent to 482 million euros
- Adjusted[1] return on sales increased by 0.9 percentage points to 14.2 percent
- Return on capital employed (ROCE) up 3.4 percentage points to 23.5 percent
- Economic value added (EVA®) improved by 83 million euros to 290 million euros

Top brands

Schwarzkopf Dial syoss

Innovations 2011

Gliss Kur Ultimate Repair

This innovative hair repair series with triple-concentrated liquid hair components effectively repairs dry hair both internally and at the surface, making hair more supple, lustrous and resilient.

www.glisskur.schwarzkopf.de

Fa NutriSkin

Our first body care line to feature a unique combination of seven nourishing care ingredients for protecting the skin from dryness and generating an irresistibly soft skin feeling.

www.fa.com

Bonacure Oil Miracle

Our revolutionary finishing product for daily hair care features a luxuriant oil to intensively nourish the hair, instantly giving it a rich gloss without that heavy feel. Available as an intensive treatment with argan oil or with marula oil for lighter applications.

www.schwarzkopf-professional.de

Key financials*

in million euros	2010	2011	+/–
Sales	3,269	3,399	4.0%
Proportion of Henkel sales	22%	22%	–
Operating profit (EBIT)	411	471	14.6%
Adjusted operating profit (EBIT)	436	482	10.5%
Return on sales (EBIT)	12.6%	13.8%	1.2 pp
Adjusted return on sales (EBIT)	13.3%	14.2%	0.9 pp
Return on capital employed (ROCE)	20.1%	23.5%	3.4 pp
Economic value added (EVA®)	207	290	40.6%

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development*

in percent	2011
Change versus previous year	4.0
Foreign exchange	–1.1
Adjusted for foreign exchange	5.1
Acquisitions/divestments	–0.3
Organic	5.4
of which price	–0.3
of which volume	5.7

* Calculated on the basis of units of 1,000 euros.

[1] Adjusted for one-time charges/gains and restructuring charges.

Economic environment and market position

The world cosmetics market of relevance to us was characterized in 2011 by intense displacement competition and predominantly declining demand. Despite the persistently difficult and highly competitive environment, we were able to globally expand our market shares and therefore further strengthen our leading position in our relevant markets across the world.

Our core markets in Western Europe and North America remained weak as a result of the difficult economic conditions and low consumer confidence prevailing. Increased promotional activities, growing price pressure and a decline in the pricing level were particularly noticeable in the Western European branded goods market for hair cosmetics and the US body care market. In numerous segments, volume expansion failed to compensate for these developments. Despite this challenging market background, however, we succeeded in maintaining our growth trend of recent years, again outstripping the market overall. As a result, we were able to further expand our market shares in Western Europe and extend our leading position in the hair cosmetics business. We also consolidated our position in our core segments in North America. The emerging markets of Africa/Middle East, Latin America and Asia (excluding Japan) continued their positive development. By contrast, our market in Eastern Europe failed for the first time to show any growth against the background of increasing displacement competition. Nevertheless, we were able to further expand our business in the emerging markets in general, generating disproportionate growth and, as a result, gaining significant market share.

In the hair salon market, persistent customer reluctance led to a decline in overall demand. However, we were able to buck this trend, growing our Schwarzkopf Professional Hair Salon business and thus further consolidating our position as the world number three in this segment.

Business activity and strategy

The Cosmetics/Toiletries business sector is active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business.

Expansion in the Branded Consumer Goods business in Western Europe and North America is focused on further increasing market share. The objective of our growth strategy is to extend our innovation leadership. To this end, we pursue a consistent, pro-active innovation strategy accompanied by strict cost management to allow us to step up our market investments and increase profitability. In Asia, the Middle East and other emerging markets, we further drive business development through the rapid expansion of our portfolio. In the Hair Salon business, we continue our strategy of globalization, generating growth momentum particularly in Asia, Latin America and the Middle East.

Organic development is at the center of our growth strategy. In a market environment characterized by strong competition, we pursue this by focusing on our top brands, ensuring the rapid international launch of innovations with above-average profitability, and by selectively driving regional expansion. Further key success factors include strong support for our top brands through media advertising and promotional activities. We regularly analyze our businesses and brands as part of our pro-active portfolio management approach. In our Branded Consumer Goods business area, our focus is on the international expansion of our core businesses of Hair Cosmetics, Body Care, Oral Care and Skin Care. Through targeted portfolio management and the associated marketing measures aimed at strengthening our top brands, our ten largest brands again grew substantially faster than the overall portfolio in 2011. They now contribute more than 90 percent to the business sector's sales revenues. In addition to strengthening our brand equities, we focus particularly on the growth potential available in our key accounts.

We also endeavor to drive forward our Hair Salon business on the basis of efficient sales and distribution structures backed up by a steady flow of innovations. And we are constantly looking to develop new regional potential on a selective basis.

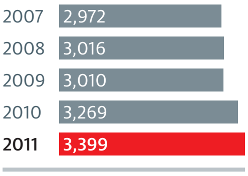
Through our pro-active innovation strategy and the consistent further strengthening of our brand equities, we expect to continue generating dynamic, profitable growth. In 2011, we further increased our innovation rate [1] to 43 percent. And we are developing additional growth potential through expansion of strategic partnerships with our customers.

43 %
innovation rate.

[1] Percentage share of sales generated with new products launched onto the market within the last three years.

Sales

in million euros



+5.4 %

organic sales growth in a predominantly declining world market.

Sales and profits

With a nominal sales increase of 4.0 percent in 2011, we maintained the unbroken trend in profitable revenue growth of recent years. Organically – i.e. after adjusting for foreign exchange and acquisitions/divestments – we grew sales by an even stronger 5.4 percent. Our performance was therefore once again well above that of the overall market. As ever, the foundation for this success was provided by our strong innovation program. Due to the intensely competitive market environment, we too found the need to increase our promotional activities for our existing portfolio. As a result, average prices were slightly below those of the previous year. In determining the price effect, we do not account for the positive structural effect arising from the launch of new products, but instead include it under volume.

All our regions contributed to the significant increase in sales. The strongest rises were once again posted by the emerging markets of Africa/Middle East, Latin America and Asia (excluding Japan). As in previous years, we were able to generate double-digit growth here. Particularly Asia (excluding Japan) and Latin America developed very dynamically with our strong core business being supplemented by numerous new product launches. We also achieved strong growth in Eastern Europe. Sales likewise increased in all our mature markets, with the mature markets of the Asia-Pacific region even registering high single-digit growth. Western Europe and especially North America developed well compared to the previous year, with our businesses there generating growth above that of our relevant markets.

We were able to increase operating profit (EBIT) to 471 million euros, 14.6 percent above the level of the previous year. The figure was positively impacted by a one-time gain from the disposal of our branded consumer goods business in India. We significantly increased adjusted operating profit (EBIT) versus prior year with a rise of 10.5 percent to 482 million euros, our highest earnings figure to date. As a result, adjusted return on sales rose by 0.9 percentage points to 14.2 percent, likewise reaching a new high. The foundation for this was provided partly by our measures to reduce costs and increase efficiency in both production and supply chain. Through these, we were able to partially offset the negative impact on our gross margin caused by the increase in material costs. We also continued our strict cost management approach in other areas, likewise contributing to an improvement in margin. In an environment characterized by a slight decline in advertising spend, we maintained our share of advertising/share of market[1] ratio.

Return on capital employed (ROCE) reached a new high of 23.5 percent, up 3.4 percentage points versus the previous year. Aside from our improved operating profit, further reductions in our capital base contributed to this high figure. Our economic value added (EVA®) rose from 207 million euros in the previous year to 290 million euros in 2011. As a proportion of sales, net working capital was a very low 3.2 percent.

Business areas

Branded Consumer Goods

Our Branded Consumer Goods business generated a gratifying increase in overall sales in 2011. The Hair Cosmetics business in particular posted very strong organic sales growth. As a result, we were once again able to expand our market shares to new record levels, growth being driven by our successful innovations under the Schwarzkopf and Syoss brands.

In the Hair Care business, we succeeded in further strengthening our market shares, with the internationally very successful launch of the new Gliss Kur line Ultimate Repair making a major contribution. Our Syoss brand was given a further boost by a relaunch involving the professional active ingredient, pro-cellium keratin. Aside from the introduction of the range-extending Syoss Men line, the launch of our highly successful Beauty Elixir Absolute Oil was particularly significant under the Syoss brand.

We were once again able to grow market shares in our Hair Colorants business to new record levels. Significant contributions came from the successful international launch of new, innovative subbrands such as Syoss Mixing Colors, a product with two harmonized shades for self-mixing, and Palette Mousse Color, the first foam colorant in Europe that mixes in a shaker. Palette was able to expand its number-one position in the European market, thanks in particular to the successful relaunch of the Deluxe line which, with seven oils, offers enhanced care performance. The further roll-out of our exceptionally successful

[1] A company's share of total advertising spend in relation to its market share, specific to Henkel's active markets.

brands Perfect Mousse and Syoss Color additionally contributed to the growth achieved.

Similarly, the Hair Styling business again posted new highs in market share. Drei Wetter Taft – Europe's number one in the styling category – further strengthened its position with innovations such as Taft Heidi's Heat Styles and Taft Volume Powder. Our trend styling brand Got2b gained further market share, driven in particular by the successful innovations Got2b Powder'ful, the innovative styling powder line, and Got2b rockin'it.

Our Body Care business was stimulated by a range of innovations, entry into new categories and product launches under the Fa, Dial and Right Guard brands. We expanded our successful Dial series NutriSkin, both with new variants in existing categories and in the newly developed body lotion category. In Europe we introduced the high-performance deodorants Right Guard Xtreme Dry and Xtreme Sports, two products that meet the needs of especially demanding customers. With Fa, the focus was on the launch of NutriSkin in the shower, deodorant and body lotion categories. As a result, Fa was able to significantly increase its market shares in Europe.

In the Skin Care business, we continued to focus on the development of innovative anti-aging products. The innovative strength of Diadermine was once again underlined by, among other things, the launch of Dr. Caspari Hormoderm, the first care product from Diadermine countering the effects of menopause on the skin aging process.

In the Oral Care business, we achieved good results with our new toothpaste series Denivit Dr. Philip.

Hair Salon

The Hair Salon business also substantially increased sales. Despite a persistently difficult market environment, we consolidated our position as the world number three. Innovative launches brought stimulus to the market. With its innovation [3D]Mension, Schwarzkopf Professional developed its first hair care series especially aligned to men. In the styling category, our top styling brand Osis was expanded by innovative products such as Osis Style Shifters. In the hair care field, the introduction of new Bonacure Oil Miracle in particular generated further growth momentum.

Capital expenditures

The emphasis of our investment activity in the year under review was on optimizing our production structures and processes. Expenditures on property, plant and equipment increased from 40 million euros in 2010 to 66 million euros in 2011. Among others we invested in further efficiency enhancements of our production, packaging tools for new products and expansion of our capacities.

Outlook

We are confident to continue our positive growth path in 2012 and generate sales growth in the low single-digit percentage range. We will remain firmly focused on maintaining our strict cost discipline, particularly in administration. While increasing the quality of service to our customers, we can further improve our efficiency by grouping activities within our shared service centers. We foresee the rate of increase in raw material prices decelerating compared to 2011. We expect adjusted return on sales to increase compared to prior year (2011 figure: 14.2 percent).

We see good prospects for the further expansion of our market positions in Europe and North America resulting from the continued diligent pursuit of our innovation offensive. There are also opportunities in the further utilization of the potential offered by our emerging markets. Currently unpredictable relief could also come from the raw materials side.

Risks lie in the uncertainty of the overall economic development and the currently uncertain outcome of the debt crises in Europe and the USA, combined with a significant deterioration in the consumer climate and intensification of displacement competition. This would result in a further rise in already high promotional and price pressures, as well as increased advertising expenditures. Moreover, unexpectedly high raw material and packaging price rises could increase the pressure on our margins.

Adhesive Technologies

- Organic sales growth of 8.3 percent
- Adjusted[1] operating profit improved significantly by 14.7 percent to 1,075 million euros
- Adjusted[1] return on sales increased by 1.1 percentage points to 13.9 percent
- Return on capital employed (ROCE) up 2.1 percentage points to 14.6 percent
- Economic value added (EVA®) improved by 209 million euros to 282 million euros

Top brands

LOCTITE Teroson technomelt

Innovations 2011

Pattex 100%

Pattex 100% is based on our patented "Flextec Technology" and is 100 percent solvent-free. The product offers high adhesive strength with easy usability and is universally suitable for projects both in and around the house.

www.pattex.de

Loctite

Loctite offers the first range of label-free anaerobic products covering all applications from fastener locking to thread and surface sealing.

www.loctiteproducts.com

Aquence Co-Cure 900 Series

This award-winning, patented solution from Aquence combines several surface-coating operations performed in paint shops, leading to savings in energy costs and reducing production complexity for our customers.

www.henkel.com/aquence-autophoretic-12623.htm

Key financials*

in million euros	2010	2011	+/–
Sales	7,306	7,746	6.0%
Proportion of Henkel sales	48%	50%	2 pp
Operating profit (EBIT)	878	1,002	14.1%
Adjusted operating profit (EBIT)	938	1,075	14.7%
Return on sales (EBIT)	12.0%	12.9%	0.9 pp
Adjusted return on sales (EBIT)	12.8%	13.9%	1.1 pp
Return on capital employed (ROCE)	12.5%	14.6%	2.1 pp
Economic value added (EVA®)	73	282	>100%

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development*

in percent	2011
Change versus previous year	6.0
Foreign exchange	–2.1
Adjusted for foreign exchange	8.1
Acquisitions/divestments	–0.2
Organic	8.3
of which price	5.3
of which volume	3.0

* Calculated on the basis of units of 1,000 euros.

[1] Adjusted for one-time charges/gains and restructuring charges.

Economic environment and market position

Set against the strong developments encountered in 2010, the growth rates of our markets underwent a slow-down in the year under review. While growth in almost all our industrial sectors flattened, particularly in the second half of the year, private consumption remained stable. Overall market volume increased in the low single-digit percentage range. However, developments in the various markets of relevance to our adhesives, sealants and surface treatment technologies were mixed. The construction sector saw a small degree of expansion, while growth rates in the steel, automotive and electronic industries were lower in 2011 compared to the significant gains made in 2010.

All our regions registered growth in 2011, with the upward trend in the emerging markets once again taking prominence. Working from a balanced business and regional platform, we were able once again to utilize our strong portfolio in accelerating growth past that of our markets. Our extensive presence in the emerging markets was a contributory factor in this regard. Overall, we were able to further consolidate our leading market position in the world and gain further market share.

However, the substantial rise in prices for raw materials and packaging was a particular challenge. This was exacerbated by supply shortages with respect to various important raw materials resulting from persistent capacity limitations among some of our vendors.

Looking forward, certain dominant trends will continue to provide growth momentum – for example, the ever-present need to increase energy efficiency and reduce carbon dioxide emissions, leading to higher demand for sustainable products and technologies. In addition, new areas of application for adhesives and sealants are constantly arising.

Business activity and strategy

The Adhesive Technologies business sector comprises five market- and customer-focused strategic business units.

In the Adhesives for Consumers, Craftsmen and Building business, we market a wide range of brandname products for private and professional users. Based on our four international brand platforms, namely Loctite, Pritt, Pattex and Ceresit, we offer target group-aligned system solutions for applications in the household, in schools and offices, for do-it-yourselfers and craftsmen and also for the building industry.

Our Transport and Metal business serves major international customers in the automotive and metal-processing industries, offering tailored system solutions and specialized technical services that cover the entire value chain – from steel coating to final vehicle assembly. With BASF Coatings GmbH, we have established a joint venture aligned to the development of innovative corrosion protection solutions for the automotive industry, which went operational in 2011.

Within the General Industry business, our customers comprise manufacturers from a multitude of industries, ranging from household appliance producers to the wind power industry. Our portfolio here encompasses Loctite products for industrial maintenance, repair and overhaul, as well as a wide range of sealants and system solutions for surface treatment applications, and specialty adhesives. Through our high-quality solutions, we help our customers strengthen their own competitiveness.

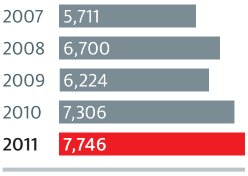
The Packaging, Consumer Goods and Construction Adhesives business serves major international customers as well as medium- and small-sized manufacturers of the consumer goods and furniture industries. Leveraging our economies of scale, we offer attractive solutions for standard and volume applications. Through our global technical customer service, we also provide innovative product ideas and technical advice, enabling our customers to become more efficient and achieve more with less material input.

Our Electronics business offers customers from the worldwide electronics industry a comprehensive portfolio of innovative high-tech adhesives and soldering materials for the manufacture of microchips and printed circuit boards. Disproportionately high investments in research and development and cooperation with our customers help in engineering solutions for future product generations.

Within the Adhesive Technologies business sector, we therefore cover the requirements of widely differing customer groups and industries

Sales

in million euros



+8.3 %
organic sales growth in a world market with growth in the low single-digits.

30 %
innovation rate.

worldwide. We intend to further expand our leading market positions with high profitability in all our business segments and regions, endeavoring to grow faster than the respective markets. An important success factor in this regard is our specific application know-how in the relevant technical fields. Due to the close contact and the extensive cooperation existing between our sales personnel and our customers, we can deliver tailored products and services on a global scale. Through strict portfolio management and our focus on strengthening our top brands, we increased the proportion of sales accounted for by our top ten brands to 54 percent in the year under review.

The close contact of our employees with customers and users is also an important source of innovation. We further see our commitment to developing sustainable solutions as a significant innovation driver and differentiator within the competitive environment. We have already attained an acknowledged leading position in the sustainability field within our markets. We will consistently extend this as we pursue the long-term sustainability strategy that Henkel has put in place.

Through a range of measures, we are continually increasing our innovation rate: In 2011, we generated around 30 percent of our sales with products successfully launched onto the market within the last five years.

Our strong position in emerging markets is also an important engine for growth. We harness the high market dynamics and the disproportionate rise in demand for adhesives encountered in these markets to drive our business development. We will thus continue to increase our investments in these regions going forward.

In the future, we intend to utilize our scale even more effectively in order to add to our competitiveness. As in recent years, we will further improve our structures. We are currently placing new emphasis on the global standardization of our business processes and the grouping of activities within our shared service centers. We also intend to generate further economies of scale by reducing complexity in our product ranges and our brands portfolio. We regularly review all components of our portfolio in terms of their contribution to achieving the long-term objectives of the business sector. Hence, in 2011 again we divested a number of small, non-core activities.

Sales and profits

The Adhesive Technologies business sector continued its profitable growth trend in 2011. In an increasingly difficult general market environment, we improved sales by 6.0 percent nominally to a new high of 7,746 million euros. At 8.3 percent, organic growth – i.e. after adjusting for foreign exchange and acquisitions/divestments – was once again significantly higher than the rate by which our relevant markets expanded. This good performance was achieved through a mix of price and volume increases. With growth in the mid-single-digit percentage range, the mature markets of Western Europe and North America showed favorable expansion overall. In our emerging markets, we again generated disproportionate double-digit growth, with our highest rates of increase occurring in the Eastern Europe region.

As in recent years, we continued to pursue the long-term adaptation of our cost structures and capacities in 2011. With an EBIT of 1,002 million euros for 2011, we succeeded for the first time in posting an operating profit figure above the 1 billion euro mark. Adjusted operating profit for the year came in at 1,075 million euros. As a result, return on sales rose by 0.9 percentage points versus the previous year, to 12.9 percent. Adjusted return on sales once again reached a new high with 13.9 percent.

The negative impact on gross margin emanating from the substantial rise in material costs was extensively offset by price increases in all our businesses and regions, as well as our ongoing measures to reduce costs and increase efficiency in both production and supply chain. Net working capital expressed as a proportion of sales amounted to 15.1 percent. Return on capital employed (ROCE) increased appreciably by 2.1 percentage points to 14.6 percent. Our economic value added (EVA®) improved by 209 million euros to 282 million euros.

Business areas

Adhesives for Consumers, Craftsmen and Building
The Adhesives for Consumers, Craftsmen and Building business once again performed well. As a result of a slight recovery in the building sector, particularly in Eastern Europe, our business with the construction industry made a significant contribution to the rise in revenues. We achieved the highest growth versus prior year in Eastern Europe and Africa/Middle East.

Industrial Adhesives
We were also able to substantially increase sales in the Packaging, Consumer Goods and Construction Adhesives business. Supply shortages with respect to certain important raw materials impacted particularly heavily on this business. Nevertheless, all our regions were able to contribute to its gratifying performance, with our emerging markets generating double-digit growth rates across the board.

Following a further recovery in its sales markets, our Transport and Metal business was able to maintain its good sales performance from 2010 also in 2011. Our ongoing investments in research and development were rewarded with several customer awards, particularly in recognition of the contributions made by our products to increasing efficiency and improving quality.

We posted our highest sales increase in the General Industry business. All our regions contributed to the strong growth, led by the emerging markets of Eastern Europe and Asia (excluding Japan). The mature markets of Western Europe and North America also showed a very pleasing development. Our Loctite brand business involving products for industrial maintenance, repair and overhaul made a vital contribution to this development.

Following very strong growth in the previous year, demand for the products and services provided by our Electronics business weakened somewhat. Overall, sales in 2011 were slightly below the level of the previous year, due mainly to a decline in the Asia-Pacific region. This decrease is partially attributable to the natural disaster suffered in Japan. However, we were able to generate positive momentum with a range of new developments, particularly in relation to the rapidly growing market for mobile communication devices.

Capital expenditures

In 2011, we invested primarily in improving the efficiency of our production facilities and in further expanding our capacities in the emerging markets. Overall, we increased our spend on property, plant and equipment from 109 million euros in 2010 to 154 million euros in the year under review.

Outlook

For 2012 we estimate organic sales growth in the mid-single-digit percentage range. We expect to once again develop significantly better in the emerging markets than in the mature markets.

We see the prices for raw materials and packaging rising more slowly than in 2011. Persistent capacity bottlenecks affecting our suppliers may once again lead to supply shortages. We will remain firmly focused on maintaining our strict cost discipline. While increasing the quality of service to our customers, we can further improve our efficiency by grouping activities within our shared service centers. Also on the basis of our significantly improved cost structures, we expect adjusted return on sales to increase versus prior year (2011 figure: 13.9 percent).

We see opportunities for our business development primarily in expediting the launch of innovations and in the possibility that the market dynamics might be more positive than currently expected. Currently unpredictable relief could also come from the raw materials side.

We see risks lying in the macroeconomic effects arising from the current debt crises and also, to a degree, in the development of our emerging markets. In key sectors such as the automotive and electronic industries, and also in the metal-processing segment, lie not inconsiderable potential risks in case of declining demand. With a less dynamic demand, the competitive pressures would increase. Moreover, unexpectedly high increases in raw material and packaging prices could exacerbate the pressure on margins.