Overall risk – Management Board appraisal

At the time of writing this report, there are no identifiable risks relating to future developments that could endanger the existence either of Henkel AG & Co. KGaA or of the Group as a going concern. As we have no special-purpose entities or investment vehicles, there is no risk that might emanate from such a source. Aggregation of the most significant individual risks is not appropriate due to the unlikelihood that such risks would occur simultaneously. Our risk analysis indicates that our exposure to risk does not represent any lasting endangerment to the net assets, financial position and results of operations either of Henkel AG & Co. KGaA or of the Group. The overall picture shows no underlying change to the risk situation compared to the previous year. The system of risk categorization undertaken by Henkel continues to indicate that the most significant exposure currently relates to the impact of macroeconomic and sector uncertainty and financial risk, to which we are responding with the countermeasures described.

Forecast

Macroeconomic development

Overview: Gross domestic product growth below 3 percent with mixed regional developments expected
We expect 2012 to bring a general slowdown in economic growth, but without a global collapse such as experienced in the crisis year 2008/2009. Based on the data provided by Feri EuroRating Services[1], we expect gross domestic product to rise by less than 3 percent.

2012 should again see the emerging regions undergo robust economic expansion, supported in particular by developments in Russia and China. For Asia (excluding Japan) we expect an increase in economic output of around 6 percent, while that of Latin America is likely to be about 4 percent. Eastern Europe should grow by around 3 percent, while expansion of the economies in the Africa/Middle East region is anticipated at roughly 4 percent.

We expect the industrialized countries to grow 1.5 percent. North American GDP is likely to expand 2 percent. Western Europe's growth should be less than 1 percent, that of Japan 2 percent.

[1] As of January 2012.

Raw material prices: Moderate rise in price level
With raw material prices having consolidated at a high level during the second half of 2011, we expect them to rise moderately in 2012. In the previous year, we were confronted with a high degree of volatility in the procurement markets. For 2012, we expect uncertainties in relation to raw material price developments. We also anticipate that logistics services will become more expensive.

Currencies: No major changes
We do not expect any material change in the euro exchange rate versus the US dollar, with the annual average for 2012 likely to be around 1.41 US dollars. However, this is based on the assumption that the debt crisis in Europe will not increase in severity and that a political solution will be found. Moreover, based on these assumptions, we expect that currencies of importance for Henkel from the emerging regions, such as the Russian ruble, the Mexican peso and the Polish zloty, will moderately appreciate in this economic climate.

Our forecasts are based on the following exchange rates:

Average exchange rates versus the euro

	2011	2012[1]
Chinese yuan	8.99	**8.69**
Mexican peso	17.31	**16.40**
Polish zloty	4.13	**3.91**
Russian ruble	40.91	**40.30**
US dollar	1.39	**1.41**

[1] Forecast.

Inflation: Slight increase in global price indices expected
According to data supplied by Feri EuroRating Services, global inflation is forecasted to be around 4 percent. While we can expect a continuing high degree of price stability for the industrialized countries with the figure at 2 percent, the inflation rate of the emerging regions is likely to average around 6 percent.

Sector development

Consumption and the retail sector: Growth at 2011 level
Based on data provided by Feri EuroRating Services, we anticipate that worldwide private consumption – and, linked to this, retail sales – will expand in 2012 at approximately the same rate as in 2011 (about 3 percent). Consumers in

the industrialized countries are expected to spend about 1 percent more than in 2011, while the emerging markets will again see a rise in consumption of about 5 percent in 2012.

Industry: Growth of 3 percent
According to data supplied by Feri EuroRating Services, growth in industrial output will ease in 2012 compared to 2011 and, at around 3 percent, will only expand slightly faster than the global economy as a whole.

It is expected that the transport industry will register a plus of over 3 percent, with the automotive sector posting a similar number. Production of the electronics industry, an important customer sector for Henkel, should also increase further, by about 4 percent. Growth in basic products such as semiconductors and printed circuit boards is actually likely to be more robust than in 2011. Production of the metal industry should expand more slowly than in 2011, with growth expected to be around 3 percent. Developments in consumer-related sectors such as the global packaging industry are likely to be sluggish, growing according to our estimates in the low single-digit percentage range, as was the case in 2011. Global construction should expand by around 2 percent.

Opportunities: Emerging regions and innovative products with plenty of potential

We continue to see great potential in the emerging markets, with above-average growth opportunities from which we intend to benefit through our local business activities. The regions concerned include, in particular, Asia, Eastern Europe and Africa/Middle East, with Latin America also part of the wider group.

We regard our research and development activities as a further great source of opportunity. We are developing a steady stream of new and innovative products and product solutions offering our customers added value. We have a well filled and balanced pipeline of medium and long-term projects involving products and systems that we intend to launch onto the markets of all three of our business sectors, both this year and in years to come.

Further opportunity lies in our strict focus on cost and our willingness to constantly examine and analyze the status quo. Such scrutiny regularly reveals further potential for cost reductions and capacity adjustments, or the elimination of non-core business activities and minor brands from our portfolio. We also expect the planned further expansion of our shared service centers to make a substantial contribution to cost reduction.

Opportunities will also arise from the ongoing pursuit and implementation of our three strategic priorities, which we explain in detail in the section entitled “Strategy and financial targets for 2012” on AR pages 45 to 48.

Further specific opportunities and risks are discussed in the individual business sector reports starting on AR page 76.

Outlook for the Henkel Group in 2012

We expect the Henkel Group to generate organic sales growth of between 3 and 5 percent in fiscal 2012.

We are confident of continuing the positive growth trend posted by our consumer goods businesses, with revenues expanding in the low single-digit percentage range.

For the Adhesive Technologies business sector, we expect sales to grow in the mid-single-digit percentage range.

We base this prediction on our strong competitive position. This we have consolidated and further extended in recent years through our innovative strength, our strong brands, our leading market presence and the quality of our portfolio.

In recent years we have introduced a number of measures that have had a positive impact on our cost structure. And in this year too, we intend to further adapt our structures to the constantly changing market conditions as a continuation of our commitment to strict cost discipline. We also intend to counteract the burden on earnings caused by high raw material costs.

These factors, together with the expected increase in sales, will positively influence our earnings development. Based on our 2011 results, we anticipate achieving an increase in adjusted[1] return on sales (EBIT) to 14 percent (2011: 13.0 percent) and an increase in adjusted earnings per preferred share of at least 10 percent.

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

We also expect the following developments in 2012:

- Increase in the prices for raw materials, packaging, contract manufacturing and traded goods in the mid-single-digit percentage range.
- Restructuring charges of around 100 million euros.
- Investments in property, plant and equipment of around 410 million euros.

Further specific expectations are discussed in the individual business sector reports starting on AR page 76.

Financial targets for 2012

Annual organic sales growth (average):
3–5 percent

Adjusted return on sales (EBIT):
14 percent

Annual growth in adjusted earnings per preferred share (average):
> 10 percent

Dividends

In keeping with our financial strategy, the dividend payout should be around 25 percent of net income attributable to shareholders of Henkel AG & Co. KGaA. Based on the anticipated increase in earnings, we therefore expect to further increase dividends paid for 2012.

Capital expenditures

We are planning to increase our investments in property, plant and equipment to around 410 million euros in 2012. In so doing, we will be increasing our focus on investment in our emerging markets. For structural reasons, the majority of our capital expenditures will be in Europe and North America.

Major investments in production facilities for the manufacture of innovative products are planned for the business sectors Laundry & Home Care and Cosmetics/Toiletries. Another major area lies in production plant optimization and capacity expansion. The focus of our Adhesive Technologies business sector in 2012 will be on consolidating and rationalizing our production footprint. As part of this process, in 2011 we laid the foundations in China for the construction of our largest industrial adhesives production facility worldwide. In the emerging markets of Eastern Europe and South America, our investment activities will concentrate on expanding production capacity.

Acquisitions, financing and liquidity

We plan to further reduce our net debt in fiscal 2012. We intend to maintain a sufficient balance of liquid funds in order to enhance our financial flexibility. We are further aiming at renewing the credit line, which expires in 2012, safeguarding our commercial paper program.

Thanks to continuing good business performance and our improved financial profile, we regained our target ratings of “A flat” (Standard & Poor’s) and “A2” (Moody’s) in the second quarter of 2011. Looking forward we intend not to jeopardize our target ratings in the long term when assessing possible acquisitions.

Post-2012 outlook

Diligent pursuit of our strategic priorities formulated in 2008 has led to a significant improvement in our key financials, with the trend remaining upward. We will again be aiming to achieve profitable growth in 2013. We will be presenting specific financial targets for the years after 2012 at the end of fiscal 2012.

Subsequent events

There have been no notifiable events.