

## Net assets and financial position

### Acquisitions and divestments

Effective January 1, 2011, we assumed control over Schwarzkopf Inc., Culver City, California, USA. Having a direct presence in the US hair salon segment enables us to better exhaust the potential of this market. The purchase price paid was 42 million euros.

As of April 1, 2011, we now include in our consolidated financial statements Purbond Group, Hatfield, Great Britain, previously accounted for using the equity method. The purchase price paid amounted to 4 million euros.

In the second half of 2011, we spent 3 million euros acquiring outstanding non-controlling interests in Rilken Cosmetics Industry S.A., Athens, Greece. Effective December 31, 2011, we increased our shareholding from 50 to 78 percent at a cost of 3 million euros, with the intention of acquiring 100 percent of the shares in the future.

At the end of January 2011, we disposed of our non-core TAED bleach activator business in Ireland for 4 million euros.

On May 31, 2011, we sold our shares in Henkel India Ltd., Chennai, India, for 29 million euros, generating a gain of 48 million euros.

Effective June 30, 2011, we divested our roofing membrane business under the Wolfen brand operated by Adhesive Technologies. The proceeds of the sale amounted to 13 million euros with a gain of 9 million euros.

On December 9, 2011, we also disposed of our non-core corrosion-protection business in the USA operated by the Adhesive Technologies business sector. The proceeds of the sale were 8 million euros, resulting in a gain of 4 million euros.

On December 15, 2011, we sold our 51 percent share in the joint venture Cemedine Henkel Co. Ltd., Tokyo, Japan, generating proceeds of 6 million euros and a gain of 1 million euros.

For further details relating to the acquisitions and divestments made, please refer to the Notes on [AR](#) pages 105 and 106.

Neither the acquisitions and divestments made nor other measures undertaken resulted in any changes in our business and organizational structure. For further details relating to our organization and business activities, please refer to the corresponding passages on [AR](#) page 45.

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.

### Capital expenditures

Capital expenditures (excluding financial assets) in fiscal 2011 amounted to 393 million euros. At 384 million euros, investments in property, plant and equipment for continuing operations returned to the level prevailing prior to the global financial and economic crisis of 2008/2009. The investment increase versus prior year amounted to 144 million euros. We spent 9 million euros on intangible assets (2010: 16 million euros). The main focal points were structural optimizations in production, and investments in plant for the manufacture of innovative, sustainable product lines (Laundry & Home Care and Cosmetics/Toiletries). The emphasis within the Adhesive Technologies business sector was on efficiency improvements at our production sites and the expansion of production capacities in our emerging markets.

The major individual projects of 2011 were as follows:

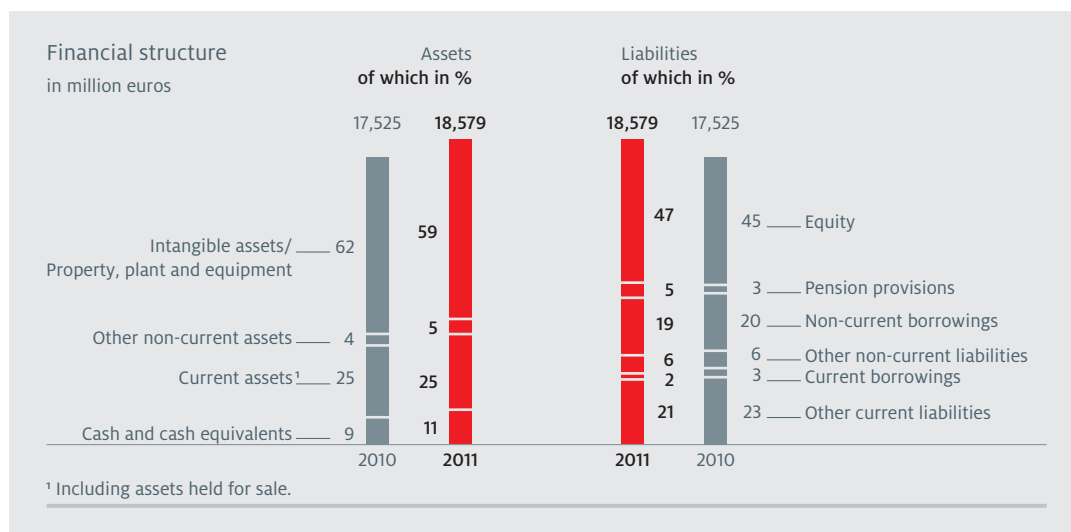
- Construction of a production facility for machine-dishwashing products (Somat tabs) in Düsseldorf, Germany (Laundry & Home Care)
- Expansion of storage capacities for laundry detergents in Perm, Russia, and Ferentino, Italy (Laundry & Home Care)
- Construction of a production plant for liquid laundry detergents in dissolvable sachets in Körösladány, Hungary (Laundry & Home Care)
- Efficiency enhancements at our production sites in Europe and Shanghai, China, and expansion of production capacity in Chengdu, China (Adhesive Technologies)
- Consolidation of graphite product manufacturing in Delaware, Ohio, USA (Adhesive Technologies)
- Packaging lines for new folding boxes for colorants in Viersen, Germany (Cosmetics/Toiletries).

Capital expenditures  
by business sector



- 37% Laundry & Home Care
- 25% Cosmetics/Toiletries
- 37% Adhesive Technologies
- 1% Corporate

Corporate = sales and services not assignable to the individual business sectors.



#### Capital expenditures 2011

in million euros	Continuing operations	Acquisitions	Total
Intangible assets	9	50	59
Property, plant and equipment	384	–	384
<b>Total</b>	<b>393</b>	<b>50</b>	<b>443</b>

In regional terms, the major portion of the investments made in 2011 focused on Europe and North America. Around three-quarters of our capital expenditures went into expansion projects and rationalization measures.

First-time consolidations and purchase price adjustments resulted in additions to intangible assets in the amount of 50 million euros. For further details, please refer to the Notes on [AR](#) pages III to II4.

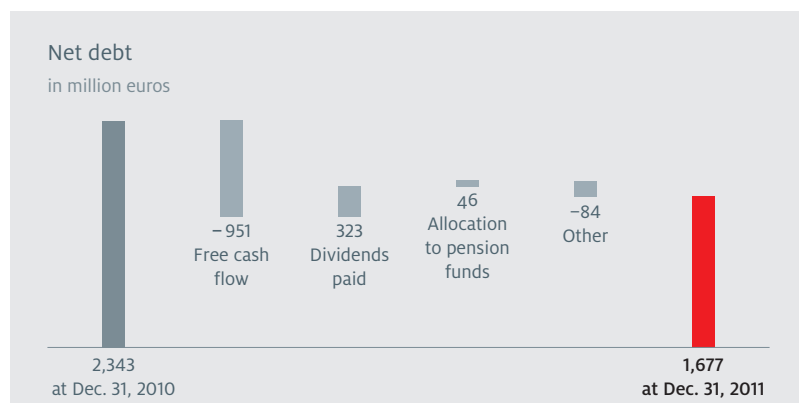
#### Net assets

Total assets rose versus prior year by 1.1 billion euros to 18.6 billion euros. Under **non-current assets**, the increase in intangible assets was primarily due to currency translation from the stronger US dollar. The figure for property, plant and equipment remained roughly constant, capital expenditures of 384 million euros in our operating businesses being offset by depreciation of 302 million euros and disposals with a book value of 28 million euros. There was also a counter-vailing effect in the form of a positive currency translation balance of 4 million euros.

**Current assets** increased from 5.9 billion euros to 6.7 billion euros. Inventories and trade accounts receivable both rose as a result of higher business volumes. Cash and cash equivalents increased by 465 million euros to 1,980 million euros, due primarily to our strong cash flow from operating activities in the third quarter.

**Equity** including non-controlling interests rose by 812 million euros to 8,762 million euros. The changes are shown in detail in the consolidated statement of changes in equity on [AR](#) page 101. The equity ratio increased compared to the previous year by 1.8 percentage points to 47.2 percent.

At 5.5 billion euros, **non-current liabilities** were above the level as of year-end 2010. The increase of 0.4 billion euros reflects developments in pension provisions. The decline in security prices adversely affected plan assets. Moreover, lower valuation discount rates had the effect of increasing calculated pension liabilities. As in the previous year, non-current borrowings include three bonds: two senior bonds with a redemption value of 1 billion euros each, and a hybrid bond with a redemption value of 1.3 billion euros.



**Current liabilities** ended the year at 4.3 billion euros, slightly below the prior-year level. This reflects a decrease of 124 million euros in our current borrowings, offset by an increase in trade accounts payable of 103 million euros to 2,411 million euros.

#### Net debt

in million euros

2007	1,702
2008	3,881
2009	2,799
2010	2,343
2011	1,677

At December 31, 2011 our **net debt**<sup>1</sup> amounted to 1,677 million euros. Compared to the prior-year figure, therefore, we reduced the balance by 666 million euros, bringing it below the 2 billion euro mark for the first time since the acquisition of the National Starch businesses.

#### Financing and capital management

The finances of the Group are centrally managed by Henkel AG & Co. KGaA. Financial funds are, as a rule, centrally procured and then allocated within the Group. We pursue a conservative borrowings policy aligned to flexibility and characterized by a balanced financing portfolio. The primary goals of financial management are to secure the liquidity and creditworthiness of the Group, together with ensuring access at all times to the capital market, and to generate a sustainable increase in shareholder value. Measures deployed in order to achieve these aims include ongoing optimization of our capital structure, adoption of an appropriate dividends policy, equity management, acquisitions, divestments and debt reduction. Our capital needs and capital procurement activities are coordinated to ensure that relevant requirements with respect to yield, liquidity, security and independence are taken into account and properly balanced.

In the year under review, Henkel paid a higher dividend for both our ordinary and our preferred shares compared to the previous year. Cash flows

not required for capital expenditures, dividends and interest payments are used to reduce our net debt, for allocations to pension funds and in the financing of acquisitions. We cover our short-term financing requirement primarily with commercial papers and bank loans. Our multi-currency commercial paper program is additionally secured by a syndicated credit facility. The outstanding bonds serve to cover long-term financing requirements. Our financial stewardship is aligned to the financial ratios defined in our financial strategy (see [AR](#) page 63). Due to the international alignment of our businesses, we have to comply with a variety of statutory and regulatory requirements, depending on the region concerned. The status and further development of these regulations are centrally monitored and any changes are taken into account in our capital management decision-making.

Our creditworthiness is regularly checked by the two rating agencies Standard & Poor's and Moody's. We further improved our financial ratios in 2010 and 2011, thus meeting a major stipulation of the rating agencies for upgrading us to our target ratings of "A flat" (Standard & Poor's) and "A2" (Moody's). This success was due to our increased profitability and substantially reduced net debt. On May 15, 2011, Standard & Poor's raised its long-term rating for Henkel debt one notch, from "A-" to "A flat" and its short-term rating from "A-2" to "A-1." Moody's likewise raised its ratings for us by one notch on June 1, 2011, from "A3"/"P2" to "A2"/"P1." This means that both Standard & Poor's and Moody's continue to assign to Henkel an investment grade rating, the best possible category.

#### Credit ratings

	Standard & Poor's	Moody's
Long-term	A flat	A2
Outlook	Stable	Stable
Short-term	A-1	P1


At Dec. 31, 2011.


At December 31, 2011, our non-current borrowings amounted to 3,501 million euros. Included in this figure are the hybrid bond issued in November 2005 with a nominal value of 1.3 billion euros, and the fixed-interest bonds issued in May 2003 and March 2009, each with a volume of 1.0 billion euros. Our current borrowings – i.e. those with maturities of less than 12 months – amounted

<sup>1</sup> Borrowings less cash and cash equivalents, minus any positive or plus any negative fair values of hedging contracts covering those borrowings, provided that the underlying borrowings are themselves subject to mark-to-market accounting.

to 412 million euros as of the reporting date. These essentially comprise interest-bearing loans and overdrafts from banks.

We used our cash flow from operating activities to redeem current borrowings and to build up cash and cash equivalents, thus reducing our net debt. The hybrid bond is treated as 50 percent equity by Standard & Poor's and – following a change in its evaluation method – now also by Moody's. This treatment benefits the rating-specific debt ratios of the Group (see key financial ratios table below).

For further information on our financial instruments, please refer to the Notes on  pages 128 to 138.

Our financial risk management activities are explained in the financial instruments report in the Notes on  pages 128 to 138 and also in the risk report on  pages 90 and 91.

### Financial position

In 2011, **cash flow from operating activities** amounted to 1,562 million euros, a total of 289 million euros below the prior-year level. The cash inflow from the growth in operating profit was offset by the outflow arising from higher net working capital caused by an increase in inventories and trade accounts receivable. The increase in operating profit led to a rise in income taxes paid. The higher gains from asset disposals have been adjusted out of cash flow from operating activities. Where cash-relevant, they are disclosed instead in cash flow from investing activities/acquisitions.

Cash outflow in **cash flow from investing activities/acquisitions** was 57 million euros higher than the prior-year level. The increase in investments in property, plant and equipment compared to previous year led to higher outflows, counterbalanced by increased proceeds from divestments, predominantly from the sale of our branded consumer goods business in India and our business involving roofing membrane under the Wolfen brand.

With a net outflow of 802 million euros, **cash flow from financing activities** showed a significant improvement of 421 million euros compared to

the previous year, despite a higher dividend payout. The transfer of liquid funds to other current financial assets effected in the previous year, and the use of liquid funds to further strengthen our pension plan assets, were also reported as outflows under this heading.

**Cash and cash equivalents** increased by 465 million euros to 1,980 million euros as a result of the cash flow from operating activities.

**Free cash flow** amounted to 951 million euros, a decrease of 557 million euros below the prior-year figure due to the lower cash flow from operating activities and higher capital expenditures.

### Key financial ratios

With our reduced indebtedness, our operating debt coverage increased to 83.2 percent in 2011, bringing it well above our target of 50 percent. Our interest coverage ratio, i.e. EBITDA divided by net interest expense, also improved further, aided by lower interest expense. And our equity ratio similarly reflects the high financial strength of the Group.

#### Key financial ratios

	2010	2011
<b>Operating debt coverage<sup>1</sup></b> (Net earnings + Amortization and depreciation + interest element of pension provisions) ÷ Net borrowings and pension provisions	71.4%	83.2%
<b>Interest coverage ratio</b> (EBITDA ÷ Net interest expense including interest element of pension provisions)	12.8	14.6
<b>Equity ratio</b> (Equity ÷ Total assets)	45.4%	47.2%

<sup>1</sup> Hybrid bond included on 50 percent debt basis only. Prior-year figures not adjusted.