


Value-based management and control system

We align our corporate management and control activities to the overall objective of achieving a sustainable increase in shareholder value. To make achievement of our growth targets measurable, we have adopted a modern system of metrics with which we calculate value-added and return ratios in line with capital market practice.

We use economic value added (EVA®) ¹ to assess growth to date and to appraise future plans. EVA® is a measure of the surplus financial value generated by a company over a certain period. A company creates economic value added if its operating profit exceeds its cost of capital, the latter being defined as the return on capital expected by the capital market.

Operational business performance is measured on the basis of operating profit (EBIT) adjusted for any goodwill impairment losses. The capital employed figure is calculated from the assets side of the statement of financial position. A reconciliation of the year-end figures in that financial statement to the average values used in determining capital employed can be found on  page 147.

The cost of capital employed is calculated as a weighted average of the cost of capital (WACC) comprising both equity and debt. In fiscal 2011 we applied a WACC after tax of 6.5 percent. Before tax, the figure was 9.0 percent. We regularly review our cost of capital in order to reflect changing market conditions. Starting fiscal 2012, therefore, we have adopted a WACC of 9.5 percent before tax and 6.5 percent after tax.

We further apply different WACC rates depending on the business sector involved. This is based on sector-specific beta factors taken from a peer group benchmark. In fiscal 2011, this resulted in a WACC before tax of 9.0 percent (6.5 percent after tax) for both Laundry & Home Care and Cosmetics/Toiletries, and of 10.5 percent before tax (7.5 percent after tax) for Adhesive Technologies. In 2012 we are applying a WACC of 9.5 percent before tax (6.5 percent after tax) for the business sectors Laundry & Home Care and Cosmetics/Toiletries, and 11.5 percent before tax (8.0 percent after tax) for Adhesive Technologies.

Weighted average cost of capital (WACC)

	2011	from 2012
Risk-free interest rate	3.3%	3.5%
Market risk premium	4.5%	4.5%
Beta factor	0.8	0.8
Cost of equity after tax	6.8%	7.1%
Cost of debt capital before tax	4.1%	4.7%
Tax shield (30%)	-1.2%	-1.4%
Cost of debt capital after tax	2.9%	3.3%
Share of equity ¹ (peer group structure)	85%	85%
Share of debt capital ¹ (peer group structure)	15%	15%
WACC after tax²	6.5%	6.5%
Tax rate	30%	30%
WACC before tax²	9.0%	9.5%

¹ At market values.

² Rounded.

WACC before tax by business sector

	2011	from 2012
Laundry & Home Care	9.0%	9.5%
Cosmetics/Toiletries	9.0%	9.5%
Adhesive Technologies	10.5%	11.5%

9.0%

Group WACC before tax in fiscal 2011.

¹ EVA® is a registered trademark of Stern Stewart & Co.

848 million euros

economic value added (EVA®) in 2011.

EVA® and ROCE

EVA® serves to promote value-added decisions and profitable growth in all our business sectors. Operations exhibiting negative value contributions with no prospect of positive EVA® in the future are divested or otherwise discontinued.

At Henkel, EVA® is calculated as follows:

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

In order to be better able to compare business units of varying size, we additionally apply return on capital employed, calculated as follows:

$$\text{ROCE} = \text{EBIT}^* \div \text{Capital Employed}.$$

ROCE represents the return on average capital employed. We create value where this metric exceeds the cost of capital before tax.

In fiscal 2011, the Henkel Group posted positive economic value added (EVA®) amounting to

848 million euros, an increase of 279 million euros (+49.0 percent) above the prior-year figure. This is attributable to both the very strong rise in operating profit and a decrease in capital employed. All our business sectors posted a positive EVA®. At Laundry & Home Care, the figure was 303 million euros, 5.7 percent above the prior-year level, resulting from a very strong reduction in capital employed. Cosmetics/Toiletries generated EVA® of 290 million euros, a major plus of 40.6 percent versus 2010 achieved thanks to a substantial increase in operating profit. At Adhesive Technologies, we increased our EVA® to 282 million euros, a rise of 209 million euros, due both to the significant improvement in operating profit and a reduction in capital employed compared to the previous year.

ROCE increased from 14.9 percent to 16.6 percent. This is essentially due to the very strong development in operating profit and a reduction in the level of capital employed.

EVA® and ROCE¹

in million euros	Laundry & Home Care	Cosmetics/Toiletries	Adhesive Technologies	Henkel Group
EBIT*	511	471	1,002	1,857
Capital employed	2,314	2,001	6,853	11,208
Cost of capital ²	208	180	720	1,009 ³
EVA® 2011	303	290	282	848 ³
EVA® 2010	286	207	73	569 ⁴
ROCE 2011	22.1%	23.5%	14.6%	16.6%
ROCE 2010	21.2%	20.1%	12.5%	14.9%

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

² Calculated on the basis of the different sector-specific WACC rates applied.

³ Calculated on the basis of a WACC rate of 9.0 percent for the Henkel Group.

⁴ Calculated on the basis of a WACC rate of 10.0 percent for the Henkel Group.

* Adjusted for goodwill impairment losses.

Statutory and regulatory situation

Our business is governed by national rules and regulations and – within the European Union (EU) – increasingly by harmonized pan-European laws. In addition, some of our operations are subject to rules and regulations derived from approvals, licenses, certificates or permits.

Our manufacturing operations are bound by rules and regulations with respect to the usage, storage, transportation and handling of certain substances and also in relation to emissions, wastewater, effluent and other waste. The construction and operation of production facilities and other plant and equipment are likewise governed by framework rules and regulations – including those relating to the decontamination of soil.

Product-specific regulations of relevance to us relate in particular to ingredients and input materials, safety of manufacture, the handling of products and their constituents, and the packaging and marketing of these items. The control mechanisms include statutory material-related regulations, usage prohibitions or restrictions, procedural requirements (test and inspection, identification marking, provision of warning labels, etc.), and product liability law.

Our internal standards are geared to ensuring compliance with statutory regulations and the safety of our manufacturing facilities and products. The associated requirements have been incorporated within, and implemented through, our management systems, and are subject to a regular audit and review regime. This includes monitoring and evaluating relevant statutory and regulatory requirements and changes.

One important statutory instrument affecting us is the European regulation on the registration, evaluation, authorization and restriction of chemicals – Regulation (EC) No. 1907/2006, abbreviation: REACH. This regulation primarily addresses Henkel as a user of chemical materials; however, it also affects us as an importer and manufacturer. In order to ensure the efficient implementation of the associated requirements, we have established a central REACH management team for handling and controlling the main REACH processes.

Business performance

World economy

Overview:

Global economic slow-down

Following the semi-recovery in 2010, the world economy¹ cooled down again in 2011. Global gross domestic product increased by 2.6 percent. While the emerging regions registered a rise of 5.4 percent, the industrialized countries exceeded the prior-year level by a mere 1.3 percent. Persistently high risks emanating from the debt crises in Europe and the USA, and the decline in growth in Asia resulting from the measures introduced to combat inflation, had an adverse effect on economic development and also increasingly dampened investor and private consumer confidence.

Developments in 2011:

Declining dynamism as the year progressed

After the rapid, strong recovery from the severe recession during the period from 2010 to the first quarter of 2011, the global business environment exhibited a decrease in dynamism in the remainder of the year.

Industry and consumption:

Further increase in industrial output

With growth of around 6 percent, industrial production again expanded faster than private consumption, the latter rising by about 3 percent. While the export-dependent industries in particular posted – in part – significant increases, developments in the consumer-related sectors were correspondingly sluggish.

Regions:

Mature markets restrained, emerging regions robust

Expansion in Western Europe's gross domestic product was generally weak. With a plus of 3 percent in Germany, however, the region was able to achieve growth of just over 1.5 percent. The North American economy likewise grew very little through the year as a whole. Compared to the previous year, the region registered an increase in economic output of just over 1.5 percent. High commodity prices and a high unemployment rate, combined with only moderate increases in disposable income, greatly inhibited private consumption as a growth driver. Japan's economy contracted by around half a percent as a result of its natural disaster. The emerging mar-

¹ Source of world economic data:
Feri EuroRating Services, January 2012.