Group segment report by business sector[1]

See Note 34 for further explanatory information

in million euros	Laundry & Home Care	Cosmetics/ Toiletries	Adhesives for Consumers, Craftsmen and Building	Industrial Adhesives	Total Adhesive Technologies	Operating business sectors total	Corporate	Henkel Group
Sales 2011	**4,304**	**3,399**	**1,933**	**5,813**	**7,746**	15,449	156	15,605
Change from previous year	–0.3%	4.0%	3.3%	7.0%	6.0%	3.7%	–21.5%	3.4%
After adjusting for foreign exchange	2.0%	5.1%	5.9%	8.9%	8.1%	5.7%	–	5.3%
Organic	2.9%	5.4%	8.1%	8.3%	8.3%	6.1%	–	5.9%
Proportion of Group sales	27%	22%	12%	37%	50%	99%	1%	100%
Sales 2010	4,319	3,269	1,872	5,434	7,306	14,894	199	15,092
EBIT 2011	**511**	**471**	**232**	**769**	**1,002**	1,983	–127	1,857
EBIT 2010	542	411	216	662	878	1,831	–108[4]	1,723
Change from previous year	–5.8%	14.6%	7.8%	16.2%	14.1%	8.3%	–	7.8%
Return on sales (EBIT) 2011	**11.9%**	**13.8%**	**12.0%**	**13.2%**	**12.9%**	12.8%	–	11.9%
Return on sales (EBIT) 2010	12.6%	12.6%	11.5%	12.2%	12.0%	12.3%	–	11.4%
Adjusted EBIT 2011	**570**	**482**	**254**	**821**	**1,075**	2,127	–98	2,029
Adjusted EBIT 2010	562	436	246	692	938	1,936	–74	1,862
Change from previous year	1.4%	10.5%	3.3%	18.7%	14.7%	9.9%	–	9.0%
Return on sales (adjusted EBIT) 2011	**13.2%**	**14.2%**	**13.2%**	**14.1%**	**13.9%**	13.8%	–	13.0%
Return on sales (adjusted EBIT) 2010	13.0%	13.3%	13.1%	12.7%	12.8%	13.0%	–	12.3%
Capital employed 2011[2]	**2,314**	**2,001**	**979**	**5,874**	**6,853**	11,168	40	11,208
Capital employed 2010[2]	2,558	2,041	1,004	6,046	7,049	11,648	–53	11,595
Change from previous year	–9.5%	–2.0%	–2.4%	–2.8%	–2.8%	–4.1%	–	–3.3%
Return on capital employed (ROCE) 2011	**22.1%**	**23.5%**	**23.7%**	**13.1%**	**14.6%**	17.8%	–	16.6%
Return on capital employed (ROCE) 2010	21.2%	20.1%	22.1%	11.0%	12.5%	15.8%	–	14.9%
Amortization/depreciation/write-ups 2011	**113**	**49**	**43**	**181**	**224**	386	17	403
of which impairment losses 2011	**14**	**–**	**1**	**6**	**7**	21	–	21
of which write-ups 2011	**–**	**–**	**–**	**1**	**1**	1	–	1
Amortization/depreciation/write-ups 2010	121	48	67	220	287	456	22	478
of which impairment losses 2010	12	2	25	35	60	74	1	75
of which write-ups 2010	–	–	1	4	5	5	1	6
Capital expenditures (excl. financial assets) 2011	**162**	**113**	**59**	**105**	**164**	439	4	443
Capital expenditures (excl. financial assets) 2010	85	43	35	85	120	248	11	260
Operating assets 2011[3]	**3,704**	**2,848**	**1,429**	**7,019**	**8,448**	15,000	425	15,424
Operating liabilities 2011	**1,228**	**1,050**	**504**	**1,458**	**1,962**	4,240	385	4,625
Net operating assets employed 2011[3]	**2,476**	**1,798**	**925**	**5,561**	**6,486**	10,759	40	10,799
Operating assets 2010[3]	4,135	2,919	1,433	7,190	8,623	15,677	352	16,029
Operating liabilities 2010	1,408	1,077	487	1,419	1,906	4,391	405	4,796
Net operating assets employed 2010[3]	2,727	1,842	946	5,770	6,717	11,286	–53	11,233

[1] Calculated on the basis of units of 1,000 euros.
[2] Including goodwill at cost prior to any accumulated amortization in accordance with IFRS 3.79 (b).
[3] Including goodwill at net book value.
[4] Including restructuring charges of 14 million euros disclosed in 2010 for the last time under Corporate, arising from integration of the National Starch businesses.

Key financials by region[1]

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Regions total	Corporate	Henkel Group
Sales[2] 2011	**5,624**	**2,813**	**934**	**2,716**	**1,065**	**2,296**	**15,449**	**156**	**15,605**
Sales[2] 2010	5,470	2,649	901	2,724	982	2,168	**14,894**	199	**15,092**
Change from previous year	2.8%	6.2%	3.7%	−0.3%	8.4%	5.9%	**3.7%**	–	**3.4%**
After adjusting for foreign exchange	2.5%	10.5%	10.0%	4.3%	11.1%	5.6%	**5.7%**	–	**5.3%**
Organic	2.3%	10.3%	10.0%	4.4%	11.0%	8.6%	**6.1%**	–	**5.9%**
Proportion of Group sales 2011	**36%**	**18%**	**6%**	**17%**	**7%**	**15%**	**99%**	**1%**	**100%**
Proportion of Group sales 2010	36%	18%	6%	18%	7%	14%	**99%**	1%	**100%**
Operating profit (EBIT) 2011	**767**	**384**	**79**	**289**	**105**	**360**	**1,983**	**−127**	**1,857**
Operating profit (EBIT) 2010	706	314	81	320	104	306	**1,831**	−108	**1,723**
Change from previous year	8.6%	22.3%	−2.6%	−9.9%	1.2%	17.8%	**8.3%**	–	**7.8%**
After adjusting for foreign exchange	8.2%	27.0%	5.8%	−5.7%	4.0%	17.8%	**10.2%**	–	**9.6%**
Return on sales (EBIT) 2011	**13.6%**	**13.6%**	**8.5%**	**10.6%**	**9.8%**	**15.7%**	**12.8%**	**–**	**11.9%**
Return on sales (EBIT) 2010	12.9%	11.9%	9.0%	11.8%	10.5%	14.1%	**12.3%**	–	**11.4%**

[1] Calculated on the basis of units of 1,000 euros.
[2] By location of company.

In 2011, the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,241 million euros (previous year: 2,182 million euros). Sales realized by the affiliated companies domiciled in the USA in 2011 amounted to 2,499 million euros (previous year: 2,502 million euros). In fiscal 2010 and 2011, no individual customer accounted for more than 10 percent of total sales.

Of the total non-current assets disclosed for the Henkel Group as of December 31, 2011 (excluding financial instruments and deferred tax claims) amounting to 11,137 million euros (previous year: 10,981 million euros)[1], 1,043 million euros (previous year: 1,053 million euros)[1] was attributable to the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA. The non-current assets (excluding financial assets and deferred tax assets) recognized in respect of the affiliated companies domiciled in the USA amounted to 5,993 million euros (previous year: 5,821 million euros)[1].

[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

Accounting principles and methods applied in preparation of the consolidated financial statements

General information

The consolidated financial statements of Henkel AG & Co. KGaA as of December 31, 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with Section 315a of the German Commercial Code [HGB].

The individual financial statements of the companies included in the consolidation are drawn up on the same accounting date, December 31, 2011, as that of Henkel AG & Co. KGaA.

Members of the KPMG organization or other independent firms of auditors instructed accordingly have audited the financial statements of the material companies included in the consolidation. Having prepared the consolidated financial statements, on January 27, 2012 the Management Board of Henkel Management AG – which is the Personally Liable Partner of Henkel AG & Co. KGaA – approved the release of same to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and declaring whether it approves them.

The consolidated financial statements are based on the principle of historical cost with the exception that certain financial instruments are accounted for at their fair values. The Group currency is the euro. Unless otherwise indicated, all amounts are shown in million euros. In order to improve the clarity and informative value of the consolidated financial statements, certain items are combined in the consolidated statement of financial position, the consolidated statement of income and the consolidated statement of comprehensive income, and then shown separately in the Notes.

Scope of consolidation

In addition to Henkel AG & Co. KGaA as the ultimate parent company, the consolidated financial statements at December 31, 2011 include seven German and 170 non-German companies in which Henkel AG & Co. KGaA has a dominating influence over financial and operating policy, based on the concept of control. This is generally the case where Henkel AG & Co. KGaA holds, directly or indirectly, a majority of the voting rights. Companies in which not more than half of the voting rights are held are fully consolidated if Henkel AG & Co. KGaA, on the basis of contractual agreements or rights held, has the power, directly or indirectly, to appoint executive and managerial bodies and thereby to govern their financial and operating policies.

Compared to December 31, 2010, four new companies have been included in the scope of consolidation and eleven companies have left the scope of consolidation. Seven mergers also took place. The changes in the scope of consolidation have not had any material effect on the main items of the consolidated financial statements.

Acquisitions and divestments

The acquisitions and divestments made in fiscal 2011 had no material effect on the business and organizational structure of Henkel, nor on our net assets, financial position or results of operations.

Acquisitions

Effective January 1, 2011, we assumed control of Schwarzkopf Inc., Culver City, California, USA. We own 100 percent of the voting rights of the company. 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. Goodwill in the amount of 41 million euros was recognized. It is assumed that the capitalized goodwill is completely tax-deductible. Cash acquired in the amount of 1 million euros is shown in the consolidated statement of cash flows under payments for acquisitions. Customer and supplier relationships were capitalized in the amount of 3 million euros. The fair value applied to the acquired trade accounts receivable is 6 million euros.

As from April 1, 2011, we now include Purbond Group, Hatfield, UK, which was previously recognized at equity, as a fully consolidated entity in our consolidated financial statements. Our share of the voting rights is 100 percent. The purchase price paid amounted to 4 million euros. Fifty percent of the shares had already been acquired as of April 3, 2008. Taking into account the provisions of IFRS 3 pertaining to business combinations achieved in stages (step acquisition) and the corresponding revaluation of previously held shares at fair value, there ensued a positive contribution to earnings amounting to 2.5 million euros recognized under other operating income.

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 percent to 78 percent with the purpose of acquiring 100 percent of the shares in the future. The difference between the previously held share of net assets and the purchase price was recognized in retained earnings.

The goodwill recognized in the year under review essentially represents the market position and profitability of the acquired businesses, together with expected synergies.

The purchase price allocation procedure for all acquisitions was completed as of December 31, 2011.

The following table shows the acquisitions made in fiscal 2011. The acquisitions indicated, taken both individually and in sum, did not exert any material effect on the net assets, financial position or results of operations of the Group.

Acquisitions

January 1 to December 31 in million euros	Carrying amount	Adjustments	Fair value
Assets	14	3	17
Non-current assets	1	2	3
Current assets	12	1	13
Cash and cash equivalents	1	–	1
Liabilities	13	2	15
Non-current liabilities and provisions	6	–	6
Current liabilities and provisions	7	2	9
Net assets	1	1	2

Goodwill 2011

in million euros	Fair value
Purchase price	46
Fair value of non-controlling interests	3
Less net assets	2
Goodwill	47

Divestments

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. The sale proceeds amounted to 29 million euros while the gain totaled 48 million euros. In the course of the divestment, bank liabilities amounting to 66 million euros were discharged.

Effective June 30, 2011, we sold our roofing membrane business under the Wolfin brand operated by the Adhesive Technologies business sector. 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.

The proceeds from the divestments indicated were received in cash. The gains were recognized under other operating income.

The following table shows the disposal and deconsolidation effects from entity sales in 2011 and from the divestment in 2011 of operations that no longer form part of our core business.

Divestments and deconsolidation effects

January 1 to December 31 in million euros	Henkel India Ltd.	Other entities	Other operations	Total
Disposal effects				
Non-current assets	4	6	2	12
Current assets	16	10	6	32
Assets held for sale	–	4	–	4
Cash and cash equivalents	–	4	–	4
Non-current liabilities and provisions	–	1	2	3
Current liabilities and provisions	69	9	–	78
Net assets	–49	14	6	–29
Share of net assets owned by shareholders of Henkel AG & Co. KGaA	–19	10	6	–3
Total consideration	29	10	21	60
Incidental costs of disposal	–3	–	–2	–5
Accumulated currency translation gains	3	1	–	4
Deconsolidation gain (+)/ loss (–)	48	1	13	62

Consolidation methods

The annual financial statements of Henkel AG & Co. KGaA and of the subsidiaries included in the consolidated financial statements were prepared on the basis of uniformly valid principles of recognition and measurement, applying the standardized year-end date adopted by the Group.

Such entities are included in the consolidated financial statements as of the date on which the Group acquired control.

All receivables and liabilities, sales, income and expenses, as well as intra-group profits on transfers of non-current assets or inventories, are eliminated on consolidation. Intra-group transactions are effected on the basis of market or transfer prices.

The purchase method is used for capital consolidation. With business combinations, therefore, all hidden reserves and hidden charges in the entity acquired are fully reflected at fair value and all identifiable intangible assets are separately

disclosed. Any difference arising between the cost of acquisition and the (share of) net assets is recognized as goodwill. Entities acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the Henkel AG & Co. KGaA investment in them against their assets and liabilities. Contingent consideration is recognized at fair value as of the date of first-time consolidation. (Incidental) costs related to the acquisition of subsidiaries are not included in the valuation of those shares. Instead, they are recognized in other operating expenses in the period in which they occur. In the recognition of acquisitions of less than 100 percent, minority interests are measured at the fair value of the share of net assets that they represent. We do not apply the option of measuring minority interests at their fair value (full goodwill method).

In subsequent years, the carrying amount of the Henkel AG & Co. KGaA investment is eliminated against the current equity of the subsidiary entities concerned.

Changes in the shareholdings of subsidiary companies, as a result of which the participating interests of the Group decrease or increase without loss of control, are recognized within equity as changes in ownership without loss of control.

As soon as the control of a subsidiary is relinquished, all the assets and liabilities and the non-controlling interests, and also the accumulated currency translation gains or losses, are derecognized. In the event that Henkel continues to own non-controlling interests in the non-consolidated entity, these are measured at fair value. The result of deconsolidation is recognized under other operating income or charges.

Currency translation

The annual financial statements of the consolidated companies, including the hidden reserves and hidden charges of Group companies recognized under the purchase method, and also goodwill arising on consolidation, are translated into euros using the functional currency method outlined in International Accounting Standard (IAS) 21 “The Effects of Changes in Foreign Exchange Rates.” The functional currency is the currency in which the foreign company predominantly generates funds and makes payments. As the functional currency for all the companies included in the consolidation is the local currency of the company concerned, assets and liabilities are translated at closing rates, while income and expenses are translated at the average rates for the year, based on an approximation of the actual rates at the date of the transaction. The differences arising from using average rather than closing rates are taken to equity and shown as other components of equity or non-controlling interests, and remain neutral in respect of net income until the shares are divested.

Financial assets and liabilities in foreign currencies are measured at closing rates and recognized in profit or loss. For the main currencies in the Group, the following exchange rates have been used based on 1 euro:

Currency

		Average exchange rate		Closing exchange rate Dec. 31	
	ISO code	2010	2011	2010	2011
Chinese yuan	CNY	8.98	**8.99**	8.82	**8.16**
Mexican peso	MXN	16.75	**17.31**	16.55	**18.05**
Polish zloty	PLN	4.00	**4.13**	3.98	**4.46**
Russian ruble	RUB	40.26	**40.91**	40.82	**41.77**
US dollar	USD	1.33	**1.39**	1.34	**1.29**

Recognition and measurement methods

Summary of selected measurement methods

Items in the consolidated statement of financial position	Measurement method
Assets	
Goodwill	Lower of carrying amount and recoverable amount ("impairment only" method)
Other intangible assets	
with indefinite useful lives	Lower of carrying amount and recoverable amount ("impairment only" method)
with definite useful lives	(Amortized) cost less any impairment losses
Property, plant and equipment	(Amortized) cost less any impairment losses
Financial assets (categories per IAS 39)	
"Loans and receivables"	(Amortized) cost using the effective interest method
"Available for sale"	Fair value with gains or losses recognized directly in equity[1]
"Held for trading"	Fair value through profit or loss
Other assets	(Amortized) cost
Inventories	Lower of cost and net realizable value
Assets held for sale	Lower of cost and fair value less costs to sell

[1] Apart from permanent impairment losses and effects arising from measurement in a foreign currency.

Liabilities	
Provisions for pensions and similar obligations	Present value of future obligations ("projected unit credit" method)
Other provisions	Settlement amount
Financial liabilities (categories per IAS 39)	
"Measured at amortized cost"	(Amortized) cost using the effective interest method
"Held for trading"	Fair value through profit or loss
Other liabilities	Settlement amount

The methods of recognition and measurement are described in detail in the Notes relating to the individual items of the statement of financial position on these pages. Also provided as part of the report on our financial instruments (Note 21 on AR pages 128 to 138) are the disclosures relevant to IFRS 7 showing the breakdown of our financial instruments by category, our methods for fair value measurement, and the derivative financial instruments that we use.

Changes in the methods of recognition and measurement arising from revised and new standards are applied retrospectively, provided that there are no alternative regulations that supersede the standard concerned. The consolidated statement of income from the previous year and the opening balance of the consolidated statement of financial position for this comparative period are adjusted as if the new methods of recognition and measurement had always been applied.

In order to standardize the disclosure of financial instruments in accordance with IFRS 7 and IAS 39, we disclosed the assets from overfunding of pension obligations falling under IAS 19 (previous year: 15 million euros) and the reimbursement rights relating to employee benefits (previous year: 90 million euros in non-current assets and 9 million euros in current assets) under other assets instead of in other financial assets. Since 2011, the liabilities to employees falling under IAS 19 have been recognized under other liabilities instead of other financial liabilities. We have adjusted the consolidated statement of financial position as of December 31, 2010. There were no effects on the consolidated statement of income or the consolidated statement of comprehensive income.

In addition, we reclassified portions of liabilities to employees in the USA resulting from deferred compensation to pension obligations (previous year: 50 million euros) in the 2011 fiscal year. In economic terms, and based on the analysis of the actual treatment of the payments, these constitute post-employment benefits as defined in IAS 19. The reimbursement rights related to those pension obligations in the USA (previous year: 84 million euros) are therefore accounted for in accordance with the provisions of IAS 19 in the same way as the corresponding liabilities. Due to the change in this recognition method, we have appropriately adjusted the prior-year figures for pension obligations in the consolidated statement of financial position and also revised the prior-year Notes relating to pension obligations and other assets. The disclosures pertaining to the financial result have been expanded. There was no effect on the total amount of the income and expenses disclosed under financial result in the

previous year, as the expected return from reimbursement rights corresponded to the actual return generated.

The reclassifications had the following effects on the relevant items of the consolidated statement of financial position dated December 31, 2010:

Reclassifications

in million euros	Dec. 31, 2010
Non-current assets	15
Other financial assets	– 90
Other assets	105
Current assets	– 15
Other financial assets	– 24
Other assets	9
Non-current liabilities	3
Pension obligations	50
Other financial liabilities	– 55
Other liabilities	8
Current liabilities	–3
Other financial liabilities	– 28
Other liabilities	25

Accounting estimates, assumptions and discretionary judgments

Preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets, liabilities and contingent liabilities at the reporting date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are continually reviewed. Changes in accounting estimates are recognized in the period in which the change takes place where such change exclusively affects that period. A change is recognized in the period in which it occurs and in later periods where such change affects both the reporting period and subsequent periods. The judgments of the Management Board regarding the application of those IFRSs which have a significant impact on the consolidated financial statements are presented in the explanatory notes on taxes on income (Note 30 on AR pages 140 to 142), intangible assets (Note 1 on AR pages 111 to 114), pension obligations (Note 15 on AR pages 120 to 124), financial instruments (Note 21 on AR pages 128 to 138) and share-based payment plans (Note 32 on AR pages 143 to 145).

Essentially, discretionary judgments are made in respect of the following two areas:

- The US dollar liabilities of Henkel of America, Inc. are set off against sureties of Henkel AG & Co. KGaA, as the deposit and the loan are with the same lender and of the same maturity, there is a legal right to set off these sums and the Group intends to settle net.
- The demarcation of the cash-generating units is also a discretionary judgment of the Group management and is explained under Note 1 on AR pages 111 to 114.

New international accounting regulations according to International Financial Reporting Standards (IFRS)

Accounting regulations applied for the first time in the year under review

Application of the following standards, amendments and interpretations has been mandatory since January 1, 2011:

Accounting regulations applied for the first time in the year under review

	Significance
Collective standard: "Improvements to IFRS 2010"	Minor
IAS 24 (Rev. 2009) "Related Party Disclosures"	Irrelevant
IAS 32 "Classification of Rights Issues" (Amendment)	Irrelevant
IFRIC 14 "Prepayments of a Minimum Funding Requirement" (Amendment)	Irrelevant
IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"	Irrelevant

- In May 2010, the International Accounting Standards Board (IASB) issued amendments of existing standards and interpretations as part of its annual improvement project. In addition to editorial revisions introduced to clarify existing regulations, amendments also relate to changes of individual standards affecting recognition, measurement or disclosure.
- In November 2009, the IASB published a revision of IAS 24 "Related Party Disclosures." The revised standard clarifies the definition of a related party and simplifies the disclosure requirement for government-related entities.
- In October 2009, the IASB published amendments to International Accounting Standard (IAS) 32 "Financial Instruments: Presentation." The amendments stipulate the accounting at the issuer of pre-emptive rights, options and warrants issued to acquire a fixed number of equity instruments that are denominated in a currency other than that of the issuer. Such cases were hitherto reported as derivative liabilities. Pre-emptive rights that are issued pro rata at a fixed currency amount to the existing shareholders of a company are in future to be classified as equity. The currency in which the exercise price is stated is irrelevant.

- International Financial Reporting Interpretations Committee (IFRIC) 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" deals with the accounting treatment of voluntary prepaid contributions made by a company in order to meet existing minimum funding requirements. The amendment allows a company to recognize the benefit arising from such a prepayment as an asset.
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" states in particular that if a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are "consideration paid" in accordance with IAS 39.41. The debtor should measure the equity instruments issued to the creditor at fair value. The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability extinguished and the initial measurement of the equity instruments issued.

The first-time application of the revised and amended standards and interpretations had no material impact on the presentation of our financial statements.

Accounting regulations not applied in advance of their effective date

The following interpretations and amendments to existing standards of possible relevance to Henkel, which have been adopted into EU law (endorsement mechanism) but are not yet mandatory, have not yet been applied:

Accounting regulations not applied in advance of their effective date

	Mandatory for fiscal years beginning on or after
IFRS 7 "Disclosures Relating to the Transfer of Financial Assets and Liabilities" (Amendment)	July 1, 2011

- In October 2010, the IASB published an amendment to IFRS 7 "Financial Instruments: Disclosure." The purpose of the extended disclosure requirements is to provide financial statement users with a better understanding of the relationship between the transferred financial assets and the corresponding liabilities. Particularly where financial assets are completely derecognized, the additional information now required should enable an assessment of the type and the risks of any continuing involvement. The amendment is applicable for financial years beginning on or after July 1, 2011, with earlier application permitted.

This amendment of IFRS 7 will not be applied by Henkel until fiscal 2012. We do not expect application to have any material impact on the presentation of our financial statements.

Accounting regulations not yet adopted into EU law

In fiscal 2011, the IASB issued the following standards or interpretations of and amendments to standards of relevance to Henkel which still have to be adopted into EU law (endorsement mechanism) before they become applicable:

Accounting regulations not yet adopted into EU law

	Mandatory for fiscal years beginning or after
IAS 1 "Presentation of Items of Other Comprehensive Income" (Amendment)	July 1, 2012
IAS 19 (Rev. 2011) "Employee Benefits"	January 1, 2013
IAS 28 "Investments in Associates and Joint Ventures" (Amendment)	January 1, 2013
IAS 32 "Offsetting Financial Assets and Liabilities" (Amendment)	January 1, 2014
IFRS 7 "Disclosures – Offsetting Financial Assets and Liabilities" (Amendment)	January 1, 2013
IFRS 9 "Financial Instruments"	January 1, 2015
IFRS 10 "Consolidated Financial Statements"	January 1, 2013
IFRS 11 "Joint Arrangements"	January 1, 2013
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2013
IFRS 13 "Fair Value Measurement"	January 1, 2013

These amendments and standards will be applied by Henkel from fiscal 2012 or later. We expect the future application of the aforementioned regulations not to have a significant impact on the presentation of the financial statements.

Notes to the consolidated statement of financial position

The measurement and recognition policies for financial statement items are described in the relevant Note.

Non-current assets

All non-current assets with definite useful lives are amortized or depreciated using the straight-line method on the basis of estimated useful lives. The useful life estimates are reviewed annually. Impairment losses are recognized when required. These are then charged to the relevant functions.

The following unchanged, standardized useful lives are applied:

Useful life

in years	
Intangible assets with definite useful lives	3 to 20
Residential buildings	50
Office buildings	40
Research and factory buildings, workshops, stores and staff buildings	25 to 33
Production facilities	10 to 25
Machinery	7 to 10
Other equipment	10
Vehicles	5 to 20
Factory and research equipment	2 to 5

(1) Intangible assets

Cost

	Trademark rights and other rights				
in million euros	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At January 1, 2010	1,156	1,437	156	6,148	8,897
Acquisitions	–	–	–	1	1
Divestments	–	–	–	–	–
Additions	–	6	10	–	16
Disposals	–	–16	–1	–74	–91
Reclassifications into assets held for sale	–	–	–	–	–
Reclassifications	–	2	–	–	2
Translation differences	84	88	3	457	632
At December 31, 2010/January 1, 2011	1,240	1,517	168	6,532	9,457
Acquisitions	–	3	–	47	50
Divestments	–	–	–	–5	–5
Additions	–	5	4	–	9
Disposals	–	–14	–	–	–14
Reclassifications into assets held for sale	–27	–	–	–	–27
Reclassifications	–	1	–	–	1
Translation differences	35	26	2	149	212
At December 31, 2011	1,248	1,538	174	6,723	9,683

Accumulated amortization

in million euros	Trademark rights and other rights: Assets with indefinite useful lives	Trademark rights and other rights: Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At January 1, 2010	9	603	56	11	679
Divestments	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	86	23	–	109
Impairment losses	4	23	–	6	33
Disposals	–	−16	−1	−6	−23
Reclassifications into assets held for sale	–	–	–	–	–
Reclassifications	–	–	–	–	–
Translation differences	–	17	1	–	18
At December 31, 2010/January 1, 2011	13	713	79	11	816
Divestments	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	81	21	–	102
Impairment losses	–	–	–	–	–
Disposals	–	−14	–	–	−14
Reclassifications into assets held for sale	–	–	–	–	–
Reclassifications	–	–	–	–	–
Translation differences	–	9	1	–	10
At December 31, 2011	13	789	101	11	914

Net book values

in million euros	Trademark rights and other rights: Assets with indefinite useful lives	Trademark rights and other rights: Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At December 31, 2011	1,235	749	73	6,712	8,769
At December 31, 2010	1,227	804	89	6,521	8,641

Trademarks and other rights acquired for valuable consideration are stated initially at acquisition cost, while internally generated software is stated at manufacturing cost.

Thereafter, goodwill and trademark rights and other rights with indefinite useful lives are subject to an impairment test at least once a year (“impairment only” approach). In the course of our annual impairment test, we reviewed the carrying amounts of goodwill and trademark rights and other rights with indefinite useful lives. The following table shows the cash-generating units together with the associated goodwill and trademark rights and other rights with indefinite useful lives at book value at the reporting date. The description of the cash-generating units can be found in the Group management report on AR pages 76 to 87.

Book values

Cash-generating units (summarized) in million euros	December 31, 2010		December 31, 2011	
	Trademarks and other rights with indefinite useful lives	Goodwill	Trademarks and other rights with indefinite useful lives	Goodwill
Laundry	362	683	372	700
Home Care	241	776	249	797
Total Laundry & Home Care	**603**	**1,459**	**621**	**1,497**
Branded Consumer Goods	481	1,046	467	1,073
Hair Salon	13	51	13	96
Total Cosmetics/Toiletries	**494**	**1,097**	**480**	**1,169**
Adhesives for Consumers, Craftsmen and Building	47	411	49	408
Industrial Adhesives	83	3,554	85	3,638
Total Adhesive Technologies	**130**	**3,965**	**134**	**4,046**

The assessment for goodwill impairment according to the fair-value-less-cost-to-sell approach is based on future estimated cash flows which are obtained from corporate budgets. The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of three years. For the period after that, a growth rate in a bandwidth between 1 and 2 percent in the cash flows is assumed for the purpose of impairment testing. The US dollar to euro exchange rate applied is 1.36. Taking into account specific tax effects, the cash flows in all cash-generating units are discounted at different rates reflecting the cost of capital (WACC) in each business sector: 6.5 percent after tax for Laundry & Home Care and Cosmetics/Toiletries, and 8.0 percent after tax for Adhesive Technologies. The reportable segment Industrial Adhesives is comprised of the two business areas Packaging, Consumer Goods and Construction Adhesives, and Transport, Metal, General Industry and Electronics. Goodwill at our Packaging, Consumer Goods and Construction Adhesives business in fiscal 2011 amounted to 1,857 million euros (previous year: 1,817 million euros), while goodwill at Transport, Metal, General Industry and Electronics had a value of 1,781 million euros in 2011 (previous year: 1,737 million euros).

In the Laundry & Home Care business sector, we have assumed an increase in sales during the three-year forecasting horizon of approximately 3 percent per year with a slight increase in world market share. Sales growth in the Cosmetics/Toiletries business sector over the three-year forecasting horizon is likewise budgeted at around 3 percent per annum. With the cosmetics market relevant to Henkel expected to grow at an annual rate of less than 1 percent, this would mean an increase in market shares. The anticipated average sales growth during the three-year forecasting horizon in the Adhesive Technologies business sector is approximately 6 percent per annum.

In all the business sectors, we have assumed that a future increase in the cost of raw materials can be extensively offset by cost reduction measures in purchasing and/or passed on to our customers. With measures to improve efficiency and pro-active management of the portfolio, we anticipate achieving higher gross margins in all our business sectors.

The impairment tests revealed sufficient buffer so that, as in the previous year, no goodwill write-downs were required. In the previous year, the disposal of our adhesives business in South Korea resulted in a goodwill impairment loss of 6 million euros, which was recognized in other operating charges.

The brands/trademark rights with indefinite useful lives are established in their markets and will continue to be intensively promoted. Moreover, there are no other statutory, regulatory or competition-related factors that limit our usage of our brand names. The value of trademarks and other rights with indefinite useful lives attributable to our Industrial Adhesives segment is comprised of 43 million euros (previous year: 42 million euros) for our Packaging, Consumer Goods and Construction Adhesives businesses, and 42 million euros (previous year: 41 million euros) for our Transport, Metal, General Industry and Electronics businesses.

The impairment tests on trademark rights and other rights with indefinite useful lives resulted in no unscheduled charges. In the previous year, the impairment loss recognized was 4 million euros.

The company also intends to continue using the brands disclosed as having definite lives. No impairment losses were registered with respect to trademark rights and other rights with definite lives in 2011. The impairment charges of 23 million euros recognized in 2010 related predominantly to assets attributable to Adhesive Technologies acquired in previous years. Write-downs of trademark rights and other rights are recognized as selling expenses.

The write-downs on other intangible assets are allocated to the relevant functions in the consolidated statement of income.

(2) Property, plant and equipment

Cost

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	Total
At January 1, 2010	1,915	2,692	898	108	5,613
Acquisitions	–	–	–	–	–
Divestments	–	–	–	–	–
Additions	21	74	50	95	240
Disposals	–55	–154	–63	–2	–274
Reclassifications into assets held for sale [1]	–10	–34	–2	–	–46
Reclassifications	50	42	17	–105	4
Translation differences	81	67	34	–	182
At December 31, 2010/January 1, 2011	2,002	2,687	934	96	5,719
Acquisitions	–	–	–	–	–
Divestments	–7	–14	–5	–	–26
Additions	32	80	61	211	384
Disposals	–40	–134	–82	–1	–257
Reclassifications into assets held for sale [1]	–9	1	1	–	–7
Reclassifications	13	52	16	–82	–1
Translation differences	7	–4	2	3	8
At December 31, 2011	1,998	2,668	927	227	5,820

[1] Of which 4 million euros cost (previous year: 6 million euros cost) and 2 million euros depreciation (previous year: 3 million euros) arising from reclassification from assets held for sale, as disposal is no longer intended.

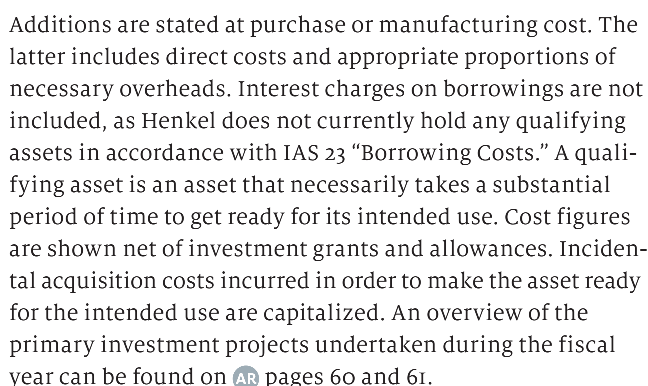
Accumulated depreciation

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	Total
At January 1, 2010	**828**	**1,873**	**664**	**–**	**3,365**
Divestments	–	–	–	–	–
Write-ups	–4	–2	–	–	–6
Scheduled depreciation	57	152	91	–	300
Impairment losses	13	25	4	–	42
Disposals	–40	–141	–60	–	–241
Reclassifications into assets held for sale[1]	–7	–32	–2	–	–41
Reclassifications	6	1	–4	–	3
Translation differences	29	39	14	–	82
At December 31, 2010/January 1, 2011	**882**	**1,915**	**707**	**–**	**3,504**
Divestments	–3	–12	–4	–	–19
Write-ups	–1	–	–	–	–1
Scheduled depreciation	54	145	82	–	281
Impairment losses	9	11	1	–	21
Disposals	–24	–125	–80	–	–229
Reclassifications into assets held for sale[1]	–6	1	1	–	–4
Reclassifications	–	–1	1	–	–
Translation differences	2	–1	2	–	3
At December 31, 2011	**913**	**1,933**	**710**	**–**	**3,556**

[1] Of which 4 million euros cost (previous year: 6 million euros cost) and 2 million euros depreciation (previous year: 3 million euros) arising from reclassification from assets held for sale, as disposal is no longer intended.

Net book values

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	Total
At December 31, 2011	**1,085**	**735**	**217**	**227**	**2,264**
At December 31, 2010	1,120	772	227	96	2,215



Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of necessary overheads. Interest charges on borrowings are not included, as Henkel does not currently hold any qualifying assets in accordance with IAS 23 “Borrowing Costs.” A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Cost figures are shown net of investment grants and allowances. Incidental acquisition costs incurred in order to make the asset ready for the intended use are capitalized. An overview of the primary investment projects undertaken during the fiscal year can be found on AR pages 60 and 61.

Liabilities secured by mortgages at December 31, 2011 amounted to 32 million euros (previous year: 30 million euros). The periods over which the assets are depreciated are based on their estimated useful lives as set out on AR page 111.

Scheduled depreciation and impairment losses recognized are disclosed in the consolidated statement of income according to the functions in which the assets are used.

Of the impairment charges amounting to 21 million euros, further production optimization measures attributable to the Adhesive Technologies business sector in North America accounted for 6 million euros. Portfolio adjustments and structural optimization projects, including the termination of our Biozym joint venture, resulted in impairment losses in the Laundry & Home Care business sector amounting to 11 million euros. Write-downs are allocated to the relevant functions in the consolidated statement of income.

(3) Other financial assets

Analysis

in million euros	December 31, 2010 Non-current	December 31, 2010 Current	December 31, 2010 Total	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total
Financial receivables from other investments	–	2	2	1	5	6
Financial receivables from third parties	26	27	53	23	22	45
Derivative financial instruments	187	144	331	194	70	264
Financial investments	22	–	22	19	–	19
Receivables from Henkel Trust e.V.	–	9	9	–	115	115
Securities and time deposits	–	362	362	–	362	362
Sundry financial assets [1]	3	140	143	9	174	183
Total [1]	238	684	922	246	748	994

[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

With the exception of derivatives, securities and time deposits, other financial assets are measured at amortized cost.

The receivables from Henkel Trust e.V. relate to pension payments made by Henkel AG & Co. KGaA to retirees, for which reimbursement can be claimed from Henkel Trust e.V.

Included under securities and time deposits are monies deposited as part of our short-term financial management arrangements. The securities involved are primarily floating interest bonds from industrial companies and financial institutions. All the bonds are publicly listed and can be sold at short notice.

Sundry non-current financial assets include receivables from employees.

The sundry current financial assets include the following:
- A surety payment related to a pending litigation in France in the amount of 92 million euros (previous year: 0 million euros).
- Amounts due from sureties and guarantee deposits of 31 million euros (previous year: 32 million euros).
- Receivables from suppliers of 15 million euros (previous year: 21 million euros).
- Receivables from employees amounting to 10 million euros (previous year: 10 million euros).

(4) Other assets

Analysis

in million euros	December 31, 2010 Non-current	December 31, 2010 Current	December 31, 2010 Total	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total
Tax receivables	10	134	144	–	123	123
Payments on account	–	26	26	–	21	21
Overfunding of pension obligations [1]	15	–	15	4	–	4
Reimbursement rights related to employee benefits [1]	90	9	99	79	9	88
Accruals	6	38	44	5	46	51
Sundry other assets	14	12	26	15	38	53
Total [1]	135	219	354	103	237	340

[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

Disclosed under other assets for the first time are the over-funding of pension obligations, and reimbursement rights related to employee benefits. For further explanation of the adjustments of prior-year amounts, please refer to AR pages 108 and 109.

Of the reimbursement rights related to employee benefits, 84 million euros (previous year: 90 million euros) is for reimbursement rights related to defined-benefit pension obligations, both of which are reported unnetted in the statement of financial position in accordance with IAS 19. The other reimbursement rights relate to liabilities to employees disclosed under other liabilities.

(5) Deferred taxes

Deferred taxes arise from differences between financial statement valuations and valuations prescribed for determining taxable income. They emanate from the following factors:

- Timing differences between the valuation of an asset or a liability in the financial statement and the relevant tax base.
- Unused tax losses expected to be utilized.
- Tax credits.

No deferred taxes are allocated in respect of the temporary differences arising from the first-time recognition of goodwill.

Deferred taxes are calculated on the basis of tax rates that apply in the individual countries as of the year-end date. Deferred tax assets are netted with deferred tax liabilities where the company has a legally enforceable claim to set off corresponding current tax assets against current tax liabilities and the taxes are levied by the same tax authority. Deferred tax assets are only recognized to the extent that it is probable that the resultant future tax advantages will be utilized. An impairment test is conducted annually in this regard as of the year-end date.

The breakdown of claims in respect of the various items in the statement of financial position is indicated under Note 30 "Taxes on income" on AR pages 140 to 142.

(6) Inventories

In accordance with IAS 2, reported under inventories are those assets that are intended for sale in the normal course of business (finished products and merchandise), those undergoing manufacture ready for sale (unfinished products) and those to be utilized or consumed in the course of manufacture or the provision of services (raw materials and supplies). Payments on account made for the purpose of purchasing inventories are likewise disclosed under the inventories heading.

Inventories are measured at the lower of cost and net realizable value.

Inventories are measured using either the "first in, first out" (FIFO) or the average cost method. Manufacturing cost includes not only the direct costs but also appropriate portions of necessary overheads (for example goods-in department, raw material storage, filling, costs incurred through to the finished goods warehouse), production-related administrative expenses, the costs of the retirement pensions of people who are employed in the production process, and production-related depreciation and amortization. The overhead add-ons are calculated on the basis of average capacity utilization. Not included, however, are interest expenses incurred during the manufacturing period.

The net realizable value is determined as an estimated selling price less costs yet to be incurred through to completion and necessary selling and distribution costs. Write-downs to the net realizable value are made if, as of year-end, the carrying amounts of the inventories are above their realizable fair values. The resultant valuation allowance for fiscal 2011 amounts to 105 million euros (previous year: 108 million euros).

Analysis of inventories

in million euros	December 31, 2010	December 31, 2011
Raw materials and supplies	446	475
Work in progress	61	61
Finished products and merchandise	950	1,010
Payments on account for merchandise	3	4
Total	1,460	1,550

(7) Trade accounts receivable

Trade accounts receivable amount to 2,001 million euros (previous year: 1,893 million euros), all due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Overall, the total valuation allowances recognized amount to 23 million euros (previous year: 24 million euros).

(8) Cash and cash equivalents

Recognized under cash and cash equivalents are liquid funds, sight deposits and other financial assets with an original term of not more than three months. In accordance with IAS 7, also recognized under cash equivalents are shares in money market funds which, due to their first-class credit rating and investment in extremely short-term money market securities, undergo only minor value fluctuations and can be readily converted within one day into known amounts of cash. Utilized bank overdrafts are recognized in the statement of financial position as liabilities to banks.

The volume of cash and cash equivalents increased compared to the previous year, from 1,515 million euros to 1,980 million euros. Of this figure, 829 million euros (previous year: 1,505 million euros) relates to cash and 1,151 million euros (previous year: 10 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows.

(9) Assets held for sale

Assets held for sale are assets that can be sold in their current condition and whose sale is very probable. Disposal must be expected within one year from the time of reclassification as held for sale. Such assets may be individual assets, groups of assets (disposal groups) or business operations (discontinued operations). Assets held for sale are no longer subject to scheduled depreciation or amortization and are instead recognized at the lower of carrying amount and fair value less costs to sell.

Compared to December 31, 2010, the figure for assets held for sale rose by 20 million euros to 51 million euros. The increase is primarily due to the reclassification of non-core brands within the Cosmetics/Toiletries business sector into assets held for sale. Certain non-current assets of various Group companies were similarly reclassified. This effect was countervailed by the disposal of our non-core TAED bleach activator business in Ireland, with a carrying value of 4 million euros, and also sales of assets at various Group companies. Moreover, assets of one company with a carrying value of 2 million euros were classified back to property, plant and equipment as there was no longer any intention to sell.

Measurement of assets held for sale at the lower of carrying amount and fair value less costs to sell resulted in an impairment charge of 2 million euros in the Adhesive Technologies business sector.

(10) Issued capital

Issued capital

in million euros	December 31, 2010	December 31, 2011
Ordinary bearer shares	260	260
Preferred bearer shares	178	178
Capital stock	**438**	**438**

Comprising
259,795,875 ordinary shares, 178,162,875 non-voting preferred shares.

All the shares are fully paid in. The ordinary and preferred shares are bearer shares of no par value, each of which represents a nominal proportion of the capital stock amounting to 1 euro. The liquidation proceeds are the same for all shares. The number of ordinary shares issued has remained unchanged since December 31, 2010. The number of preferred shares in circulation increased by 250,395 to 174,386,705 due to the exercise of option rights from stock incentive plans during the fiscal year, accompanied by a corresponding decrease in the number of treasury shares.

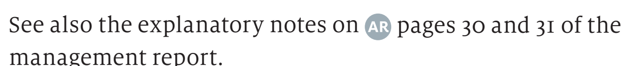
According to Art. 6 (5) of the Articles of Association, the Personally Liable Partner is authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital of the corporation in one or more installments at any time until April 18, 2015, up to a total of 25.6 million euros (25.6 million shares) by issuing new non-voting preferred shares to be paid up in cash (authorized capital). All shareholders are essentially assigned pre-emptive rights. However, these may be set aside where necessary in order to grant to holders of bonds with warrants or conversion rights issued by the corporation, or one of the companies dependent upon it, pre-emptive rights to new shares corresponding to those that would accrue to such bondholders following the exercise of their warrant or conversion rights, or if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing. Pre-emptive rights may also be set aside where necessary in order to dispose of fractional amounts.

On April 19, 2010, the Annual General Meeting of Henkel AG & Co. KGaA resolved to authorize the Personally Liable Partner to acquire, by April 18, 2015, ordinary or preferred shares of the corporation representing a nominal proportion of the capital stock of not more than 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may be used to operate the Stock Incentive Plan of the Henkel Group or transferred to third parties for the purpose of acquiring companies or investing in companies. Treasury stock may also be sold to third parties against payment in

cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation.

The Personally Liable Partner has also been authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to cancel treasury shares without further resolution in General Meeting being required. The proportion of capital stock represented by treasury shares issued or sold on the basis of these authorizations must not exceed a total of 10 percent. Also to be taken into account in this restriction are shares used to service bonds with warrants or conversion rights or a conversion obligation, issued by the corporation or one of the companies dependent upon it, where these bonds were or are issued with the pre-emptive rights of existing shareholders excluded.

Treasury stock held by the corporation at December 31, 2011 amounted to 3,776,170 preferred shares. This represents 0.86 percent of capital stock and a proportional nominal value of 3.8 million euros. The treasury shares were acquired in order to service the option rights arising from the Stock Incentive Plans. Originally, 992,680 shares were purchased in the year 2000, an amount of 808,120 shares was purchased in 2001 and 694,900 shares were purchased in 2002. This corresponds to a total of 2,495,700 shares or, following the share split implemented in 2007 (at a ratio of 1:3), 7,487,100 shares. Options were exercised for the first time under the Stock Incentive Plan in 2004. Since 2004, taking the share split into account, the exercise of options has led to a reduction of 3,710,930 in treasury shares held, with a proportional nominal value of 3.7 million euros (0.85 percent of capital stock). In 2011, the exercise of options led to a reduction of 250,395 in treasury shares held. The proportional nominal value of the capital stock amounted to 0.3 million euros (0.06 percent). The selling prices were based on the stock market prices prevailing at the time of disposal. The total proceeds on disposal of 12 million euros were recognized directly in equity.


See also the explanatory notes on AR pages 30 and 31 of the management report.

(11) Capital reserve

The capital reserve comprises the amounts received in previous years in excess of the nominal value of preferred shares and convertible warrant bonds issued by Henkel AG & Co. KGaA.

(12) Retained earnings

Included in the retained earnings are the following:

- Amounts allocated in the financial statements of Henkel AG & Co. KGaA in previous years.
- Amounts allocated from the consolidated net income less those amounts attributable to non-controlling interests.
- Buy-back of treasury shares by Henkel AG & Co. KGaA at cost and the proceeds from their disposal.
- Actuarial gains and losses recognized in equity.

(13) Other components of equity

Reported under this heading are differences arising from the currency translation of annual financial statements of foreign subsidiaries and also the effects arising from the revenue-neutral valuation of financial assets in the "available for sale" category and of derivative financial instruments for which hedge accounting is used. The latter are derivatives used in connection with cash flow hedges or hedges of a net investment in a foreign entity.

Due in particular to the appreciation of the US dollar versus the euro, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation was reduced by 114 million euros compared to the figure as of December 31, 2010, to –662 million euros.

(14) Non-controlling interests

Recognized under non-controlling interests are equity shares held by third parties in a number of consolidated subsidiaries, measured on the basis of the proportion of net assets that those shareholdings represent.

(15) Pension obligations

Employees in companies included in the consolidated financial statements have entitlements under company pension plans which are either defined contribution or defined benefit plans. These take different forms depending on the legal, financial and tax regime of each country. The level of benefits provided is based, as a rule, on the length of service and on the earnings of the person entitled.

The defined contribution plans are structured in such a way that the corporation pays contributions to public or private sector institutions on the basis of statutory or contractual terms or on a voluntary basis and has no further obligations regarding the payment of benefits to employees. The contributions for defined contribution plans for the year under review amounted to 90 million euros (previous year: 91 million euros). In 2011, payments to public sector institutions totaled 50 million euros (previous year: 46 million euros) and payments to private sector institutions totaled 40 million euros (previous year: 45 million euros).

In defined benefit plans, the liability for pensions and other post-employment benefits is calculated at the present value of the future obligations (projected unit credit method). This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account.

The mortality rates used are based on published statistics and actuarial data as applicable in each country. In Germany, the assumptions are based on the “Heubeck 2005 G” mortality table. In the USA, the assumptions are based on the “RP 2000 projected to 2015” mortality table.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have allocated proceeds of the bond issued in 2005 and certain other assets to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in the capital market in accordance with investment policies laid down in the trust agreement.

Trends in wages, salaries and retirement benefits

	Germany		USA		Rest of world[1]	
in percent	2010	2011	2010	2011	2010	2011
Discount factor	4.50	**4.30**	5.40	**4.40**	3.8	**4.2**
Income trend	3.25	**3.25**	4.25	**4.25**	3.1	**3.1**
Retirement benefit trend	2.00	**2.00**	4.25	**4.30**	2.2	**2.2**
Expected return on plan assets	6.19	**5.69**	5.80	**5.80**	4.1	**3.8**
Expected return from reimbursement rights	–	**–**	6.50	**6.50**	–	**–**
Expected increases in costs for medical benefits	–	**–**	8.50	**8.50**	8.0	**8.0**

[1] Weighted average. Prior-year figures adjusted.

Present value of pension obligations at December 31, 2010

in million euros	Germany	USA[1]	Rest of world	Total
At January 1, 2010	**2,070**	**973**	**690**	**3,733**
Changes in the Group	–	–	– 2	**– 2**
Translation differences	–	77	30	**107**
Actuarial gains (–)/losses (+)	110	– 10	40	**140**
Current service cost	78	20	26	**124**
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	– 16	– 2	**– 18**
Interest expense	100	53	34	**187**
Retirement benefits paid out of plan assets/out of reimbursement rights	– 130	– 58	– 37	**– 225**
Employer’s payments for pension obligations	– 5	– 20	– 17	**– 42**
Past service cost (+)/gain (–)	–	–1	–	**– 1**
At December 31, 2010	**2,223**	**1,018**	**762**	**4,003**
of which unfunded obligations	134	198	97	**429**
of which funded obligations	2,089	732	665	**3,486**
of which obligations covered by reimbursement rights	–	88	–	**88**

[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

Fair value of plan assets at December 31, 2010

in million euros	Germany	USA	Rest of world	Total
At January 1, 2010	**1,730**	**567**	**543**	**2,840**
Changes in the Group	–	–	–1	–1
Translation differences	–	44	21	65
Employer contributions to pension funds	213	77	22	312
Employee contributions to pension funds	–	–	1	1
Retirement benefits paid out of plan assets	–130	–48	–37	–215
Expected return on plan assets	107	36	28	171
Actuarial gains (+)/losses (–)	178	10	26	214
At December 31, 2010	**2,098**	**686**	**603**	**3,387**
Actual return on plan assets	285	46	54	385

Fair value of reimbursement rights at December 31, 2010

in million euros	Germany	USA	Rest of world	Total
At January 1, 2010	**–**	**84**	**–**	**84**
Changes in the Group	–	–	–	–
Translation differences	–	6	–	6
Employer contributions to pension funds	–	2	–	2
Employee contributions to pension funds	–	–	–	–
Retirement benefits paid out of reimbursement rights	–	–8	–	–8
Expected return on reimbursement rights	–	6	–	6
Actuarial gains (+)/losses (–)	–	–	–	–
At December 31, 2010	**–**	**90**	**–**	**90**
Actual return on reimbursement rights	–	6	–	6

Net pension cost 2010

in million euros	Germany	USA[1]	Rest of world	Total
Current service cost	78	20	26	124
Amortization of past service cost	–	–	–	–
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–16	–2	–18
Interest expense	100	53	34	187
Expected return on plan assets	–107	–36	–28	–171
Expected return on reimbursement rights	–	–6	–	–6
Net pension cost 2010	**71**	**15**	**30**	**116**

[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

Reconciliation of overfunding/underfunding to recognized provisions for pension obligations and to net obligation at December 31, 2010

in million euros	Germany	USA[1]	Rest of world	Total
Overfunding/underfunding of obligations	–125	–332	–159	–616
Amount not recognized due to asset ceiling	–	–	–9	–9
Past service cost	–	–6	2	–4
Reimbursement rights	–	90	–	90
Net obligation	**–125**	**–248**	**–166**	**–539**
Plan assets reported as net assets	–9	–	–6	–15
Recognized as reimbursement rights (asset)	–	–90	–	–90
Recognized provision for pension obligations at December 31, 2010	**–134**	**–338**	**–172**	**–644**

[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

Present value of pension obligations at December 31, 2011

in million euros	Germany	USA	Rest of world	Total
At January 1, 2011	**2,223**	**1,018**	**762**	**4,003**
Changes in the Group	–1	1	–3	–3
Translation differences	–	41	14	55
Actuarial gains (–)/losses (+)	59	121	56	236
Current service cost	35	16	27	78
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–1	–2	–3
Interest expense	97	49	33	179
Retirement benefits paid out of plan assets/out of reimbursement rights	–119	–54	–30	–203
Employer's payments for pension obligations	–25	–21	–14	–60
Past service cost (+)/gain (–)	–	–1	3	2
At December 31, 2011	**2,269**	**1,169**	**846**	**4,284**
of which unfunded obligations	105	208	92	405
of which funded obligations	2,164	867	754	3,785
of which obligations covered by reimbursement rights	–	94	–	94

Fair value of plan assets at December 31, 2011

in million euros	Germany	USA	Rest of world	Total
At January 1, 2011	**2,098**	**686**	**603**	**3,387**
Changes in the Group	–	–	–3	–3
Translation differences	–	24	13	37
Employer contributions to pension funds	23	–	23	46
Employee contributions to pension funds	–	–	1	1
Retirement benefits paid out of plan assets	–119	–46	–30	–195
Expected return on plan assets	119	35	26	180
Actuarial gains (+)/losses (–)	–188	29	9	–150
At December 31, 2011	**1,933**	**728**	**642**	**3,303**
Actual return on plan assets	–69	64	35	30

Fair value of reimbursement rights at December 31, 2011

in million euros	Germany	USA	Rest of world	Total
At January 1, 2011	–	**90**	–	**90**
Changes in the Group	–	–	–	–
Translation differences	–	2	–	2
Employer contributions to pension funds	–	–	–	–
Employee contributions to pension funds	–	–	–	–
Retirement benefits paid out of reimbursement rights	–	–7	–	–7
Expected return on reimbursement rights	–	4	–	4
Actuarial gains (+)/losses (–)	–	–5	–	–5
At December 31, 2011	–	**84**	–	**84**
Actual return on reimbursement rights	–	–1	–	–1

Net pension cost 2011

in million euros	Germany	USA	Rest of world	Total
Current service cost	35	16	27	78
Amortization of past service cost	–	–	–	–
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–1	–2	–3
Interest expense	97	49	33	179
Expected return on plan assets	–119	–35	–26	–180
Expected return on reimbursement rights	–	–4	–	–4
Net pension cost 2011	**13**	**25**	**32**	**70**

Reconciliation of overfunding/underfunding to recognized provisions for pension obligations and to net obligation at December 31, 2011

in million euros	Germany	USA	Rest of world	Total
Overfunding/underfunding of obligations	–336	–441	–204	–981
Amount not recognized due to asset ceiling	–	–	–9	–9
Past service cost	–	–5	1	–4
Reimbursement rights	–	84	–	84
Net obligation	**–336**	**–362**	**–212**	**–910**
Plan assets reported as net assets	–	–	–4	–4
Recognized as reimbursement rights (asset)	–	–84	–	–84
Recognized provision for pension obligations at December 31, 2011	**–336**	**–446**	**–216**	**–998**

To facilitate comparison, the figures for pension obligations to employees from the previous year have been adjusted, as explained on AR pages 108 and 109.

Exercising the elective right that exists, we recognize actuarial gains and losses in the year in which they arise as part of the pension provision and include them in the statement of comprehensive income in accordance with IAS 19.93B "Employee Benefits." Hence, the full extent of the obligation is recognized as of the statement of financial position date. As of December 31, 2011, accumulated actuarial losses of 1,475 million euros (previous year: 1,084 million euros) were offset against retained earnings.

We have derived the expected return on total plan assets from the weighted expected long-term return on the various asset classes.

Of the amounts added to the provision in 2011, 78 million euros (previous year: 124 million euros) is included in operating profit (pension costs as part of payroll cost, see AR page 143) and 5 million euros (previous year: –10 million euros) in financial result (see AR page 140). The expenses shown in operating profit are allocated by function, depending on the sphere of activity of the employees. All gains/losses from the termination and curtailment of plans have been recognized in other operating income/charges. The employer's contributions in respect of state pension provisions are included as "Social security costs and staff welfare costs" under Note 32, AR page 143. In 2011, payments into the plan assets amounted to 46 million euros (previous year: 314 million euros).

The reimbursement rights covering a portion of the pension obligations in the USA are assets that do not fulfill the definition of plan assets as stated in IAS 19. The reimbursement rights indicated are available to the Group in order to cover the expenditures required to fulfill the respective pension obligations. Reimbursement rights and the associated pension obligations must, according to IAS 19, be shown unnetted in the statement of financial position.

Analysis of plan assets

	December 31, 2010		December 31, 2011	
in million euros	Fair value	in %	Fair value	in %
Investment funds invested in				
shares	952	28.1	951	28.8
bonds	1,826	53.9	2,026	61.3
cash	360	10.6	130	4.0
Other assets	176	5.2	186	5.6
Cash	73	2.2	10	0.3
Total	**3,387**	**100.0**	**3,303**	**100.0**

At December 31, 2011, other assets making up the plan assets included the present value of a non-current receivable of 47 million euros (previous year: 42 million euros) relating to claims pertaining to a hereditary building lease assigned by Henkel AG & Co. KGaA to Henkel Trust e.V. Also shown here is a claim of 132 million euros (previous year: 135 million euros) against BASF Personal Care & Nutrition GmbH (formerly Cognis) for indemnification of pension obligations.

In 2011, Henkel AG & Co. KGaA received or claimed indemnification out of the assets held by Henkel Trust e.V. with respect to benefits paid to pensioners in the amount of 117 million euros.

Payments into pension funds in fiscal 2012 are expected to total 52 million euros.

In the next five financial years, the payments expected to come out of pension funds are as follows:

Future pension payments

in million euros	Germany	USA	Rest of world	Total
2012	155	108	30	**293**
2013	140	88	30	**258**
2014	137	87	32	**256**
2015	131	87	34	**252**
2016	128	87	34	**249**

Effect of discount rate changes on the present value of pension obligations

in million euros	Germany	USA
Present value of obligations	2,269	1,169
Increase of 0.5 percentage points	–130	–54
Decrease of 0.5 percentage points	138	60

Effects of a trend change in medical costs

	December 31, 2010			December 31, 2011		
in million euros	Service cost	Interest expense	Present value of obligations	Service cost	Interest expense	Present value of obligations
Increase in medical costs of 1 percentage point	–	–	8	**–**	**–**	**8**
Decrease in medical costs of 1 percentage point	–	–	– 7	**–**	**–**	**–7**

Multi-year summary

in million euros	2007 [1]	2008 [1]	2009 [1]	2010	2011
Present value of obligations	3,118	3,248	3,684	4,003	**4,284**
of which: post-retirement health care obligations	189	212	199	191	**196**
Fair value of plan assets	2,461	2,445	2,840	3,387	**3,303**
of which: for post-retirement health care obligations	4	8	7	7	**6**
Overfunding/underfunding of obligations	– 657	– 803	– 844	– 616	**– 981**
Experience adjustments on pension obligations	– 14	5	25	9	**5**
Experience adjustments on plan assets	– 125	– 499	53	214	**–150**

[1] The figures for 2007 to 2009 have not been adjusted as described in detail on AR pages 108 and 109.

(16) Income tax provisions and other provisions

Development in 2011

in million euros	Initial balance January 1, 2011	Other changes	Utilized	Released	Added	End balance December 31, 2011
Income tax provisions	446	4	94	80	126	402
of which non-current	119	–1	8	26	9	93
of which current	327	5	86	54	117	309
Restructuring provisions	245	3	102	12	157	291
of which non-current	74	–17	8	2	45	92
of which current	171	20	94	10	112	199
Sundry provisions	924	3	534	32	575	936
of which non-current	228	–4	27	5	110	302
of which current	696	7	507	27	465	634
Total	1,615	10	730	124	858	1,629
of which non-current	421	–22	43	33	164	487
of which current	1,194	32	687	91	694	1,142

Provisions are recognized in response to an obligation to third parties where the outflow of resources is probable and the expected obligation can be reliably estimated. Provisions are aligned to the best estimate of the expenditures required in order to meet the current obligation as of the reporting date. Price increases expected to take place prior to the time of performance are included in the calculation. Provisions in which the interest effect is material are discounted to the reporting date at a pre-tax interest rate. For obligations in Germany, we have applied interest rates of between 2.6 and 4.5 percent.

The income tax provisions comprise accrued tax liabilities and amounts set aside for the outcome of external tax audits.

Other provisions include identifiable obligations toward third parties. They are measured at total cost.

Other changes in provisions include changes in the scope of consolidation, movements in exchange rates, and adjustments to reflect changes in maturity as time passes.

Provisions are recognized in respect of restructuring measures, provided that work has begun on the implementation of a detailed, formal plan or such a plan has already been communicated. In order to continuously adapt our structures to our markets and customers, we have increased the additions to our restructuring provisions, particularly in respect of Western Europe and North America. We are further expanding our shared service centers, realigning our organization in the Laundry & Home Care business sector toward greater efficiency, and optimizing the production network within the Adhesive Technologies business sector.

The provisions for obligations arising from our sales activities cover expected burdens in the form of subsequent reductions in already generated revenues, and risks arising from onerous contracts.

Provisions for obligations in the personnel sphere essentially cover expenditures likely to be incurred by the Group for variable, performance-related compensation components. In the year under review, we added 62 million euros to the provisions for our “Special Incentive 2012,” which is included in non-current provisions for payments to employees. The program extends to our management circles 0 to IIb.

Provisions for obligations in the production and technology sphere relate primarily to provisions for warranties.

Analysis of sundry provisions by function

in million euros	December 31, 2010	December 31, 2011
Sales	166	120
of which non-current	9	4
of which current	157	116
Personnel	506	585
of which non-current	144	228
of which current	362	357
Production and technology	39	40
of which non-current	20	22
of which current	19	18
Various sundry obligations	213	191
of which non-current	55	48
of which current	158	143
Total	924	936
of which non-current	228	302
of which current	696	634

(17) Borrowings

in million euros	December 31, 2010 Non-current	Current	Total	December 31, 2011 Non-current	Current	Total
Bonds	3,468	219	3,687	3,483	187	3,670
Commercial papers[1]	–	79	79	–	29	29
Liabilities to banks[2]	102	233	335	15	194	209
(of which amounts secured)	*(11)*	*(93)*	*(104)*	*(12)*	*(62)*	*(74)*
Other borrowings	–	5	5	3	2	5
Total	3,570	536	4,106	3,501	412	3,913

[1] From the euro and US dollar commercial paper program (total volume 2.1 billion euros).
[2] Obligations with floating rates of interest or interest rates pegged for less than one year.

Bonds

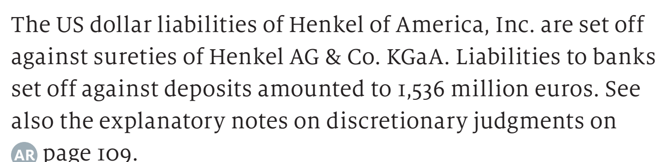
Issuer (in million euros)	Type	Nominal	Carrying amounts excluding accrued interest 2010	2011	Market values excluding accrued interest[1] 2010	2011	Market values including accrued interest[1] 2010	2011	Interest rate[2] 2010	2011	Interest fixing
Henkel AG & Co. KGaA	Bond	1,000	1,049	**1,030**	1,057	**1,044**	1,081	**1,068**	4.2500	**4.2500**	until 2013[3]
Interest rate swap (3-month Euribor +0.405 %)[6]	*Receiver swap*	*1,000*	*55*	***32***	*55*	***32***	*78*	***55***	*1.4351*	***1.8751***	*3 months*
Henkel AG & Co. KGaA	Bond	1,000	1,020	**1,029**	1,076	**1,072**	1,112	**1,108**	4.6250	**4.6250**	until 2014[4]
Interest rate swap (3-month Euribor +2.02 %)[6]	*Receiver swap*	*1,000*	*24*	***32***	*24*	***32***	*59*	***67***	*3.0453*	***3.4403***	*3 months*
Henkel AG & Co. KGaA	Hybrid bond	1,300	1,399	**1,424**	1,320	**1,296**	1,327	**1,303**	5.3750	**5.3750**	until 2015[5]
Interest rate swap (3-month Euribor +1.80 %)[6]	*Receiver swap*	*650*	*37*	***54***	*37*	***54***	*39*	***55***	*2.8352*	***3.2712***	*3 months*
Interest rate swap (1-month Euribor +0.955 %)[6]	*Receiver swap*	*650*	*69*	***81***	*69*	***81***	*72*	***84***	*1.7590*	***2.0750***	*1 month*
Total bonds		3,300	3,468	3,483	3,453	3,412	3,520	3,479			
Total interest rate swaps		3,300	185	199	185	199	248	261			

[1] Market value of the bonds derived from the stock market price at December 31.
[2] Interest rate on December 31.
[3] Fixed-rate interest of bond coupon: 4.25 percent, converted using interest rate swaps into a floating interest rate; interest rate to be fixed next on March 12, 2012 (previous year: March 10, 2011) (fair value hedge).
[4] Fixed-rate interest of bond coupon: 4.625 percent, converted using interest rate swaps into a floating interest rate; interest rate to be fixed next on March 19, 2012 (previous year: March 21, 2011) (fair value hedge).
[5] Fixed-rate interest of bond coupon: 5.375 percent, converted using interest rate swaps into a floating interest rate; interest rate to be fixed next on January 25, 2012 (previous year: January 25, 2011) (fair value hedge).
[6] Not including the valuation allowance in the amount of 4.8 million euros to provide for counterparty default risk.

The ten-year bond issued in 2003 by Henkel AG & Co. KGaA for 1 billion euros with a coupon of 4.25 percent matures in June 2013.

The five-year bond issued in 2009 by Henkel AG & Co. KGaA for 1 billion euros with a coupon of 4.625 percent matures in March 2014.

The 1.3 billion euro subordinated hybrid bond issued by Henkel AG & Co. KGaA in November 2005 to finance a large part of the pension obligations in Germany matures in 2104. Under the terms of the bond, the coupon for the first ten years is 5.375 percent. The earliest bond redemption date is November 25, 2015. If it is not redeemed, the bond interest will be based on the 3-month Euribor interest rate plus a premium of 2.85 percentage points. The bond terms also stipulate that if there is a "cash flow event," Henkel AG & Co. KGaA has the option or the obligation to defer the interest payments. A cash flow event is deemed to have occurred if the adjusted cash flow from operating activities is below a certain percentage of the net liabilities (20 percent for optional interest deferral, 15 percent for mandatory interest deferral); see Section 3 (4) of the bond terms and conditions for the definition. On the basis of the cash flow calculated at December 31, 2011, the percentage was 77.42 percent (previous year: 72.23 percent).



The US dollar liabilities of Henkel of America, Inc. are set off against sureties of Henkel AG & Co. KGaA. Liabilities to banks set off against deposits amounted to 1,536 million euros. See also the explanatory notes on discretionary judgments on AR page 109.

The securities for liabilities to banks relate to mortgages, assigned receivables and inventory pledged.

(18) Other financial liabilities

Analysis

in million euros	December 31, 2010 Non-current	Current	Total	December 31, 2011 Non-current	Current	Total
Liabilities to non-consolidated affiliated companies	–	15	15	–	8	8
Liabilities to customers	–	30	30	–	33	33
Derivative financial instruments	69	90	159	50	25	75
Sundry financial liabilities	4	12	16	4	18	22
Total [1]	73	147	220	54	84	138

[1] Prior-year figures adjusted (see "Recognition and measurement methods" on AR pages 108 and 109).

Sundry other liabilities include payments owed to the Pensionssicherungsverein (German pension protection fund) amounting to 9 million euros (previous year: 12 million euros).

(19) Other liabilities

Analysis

in million euros	December 31, 2010 Non-current	Current	Total	December 31, 2011 Non-current	Current	Total
Other tax liabilities	–	83	83	–	81	81
Liabilities to employees [1]	8	25	33	4	18	22
Liabilities relating to employees' deductions	–	51	51	–	53	53
Liabilities in respect of social security	–	21	21	–	20	20
Sundry other liabilities	17	50	67	19	35	54
Total [1]	25	230	255	23	207	230

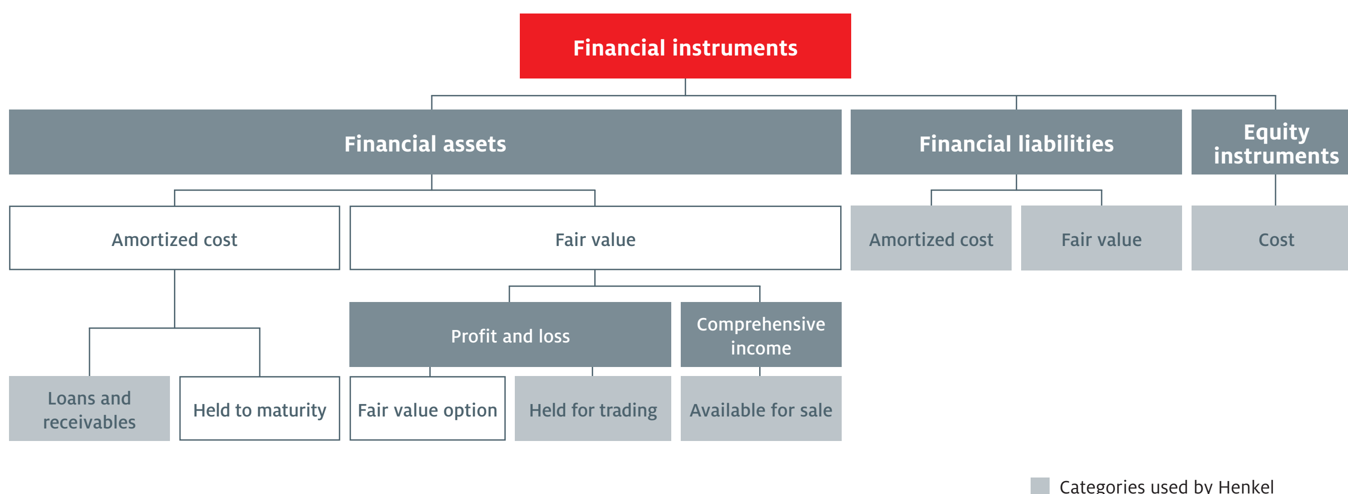
[1] Prior-year figures adjusted (see "Recognition and measurement methods" on AR pages 108 and 109).

The sundry other liabilities primarily comprise various accruals and deferrals amounting to 15 million euros (previous year: 16 million euros) and also include payments on account in the amount of 4 million euros (previous year: 5 million euros).

(20) Trade accounts payable

Trade accounts payable increased from 2,308 million euros to 2,411 million euros. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. All such payables are due within one year.

(21) Financial instruments report



Financial instruments explained by category
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Within the Henkel Group, financial instruments are reported under trade accounts receivable, trade accounts payable, borrowings, other financial assets and other financial liabilities, and also cash and cash equivalents within the statement of financial position.

Financial instruments are recognized once Henkel becomes a party to the contractual provisions of the financial instrument. The recognition of financial assets takes place at the settlement date, with the exemption of derivative financial instruments that are recognized on the transaction date.

All financial instruments are initially recognized at their fair value. Incidental acquisition costs are only capitalized if the financial instruments are not subsequently remeasured to fair value through profit or loss.

For subsequent remeasurement, financial instruments are divided into the following classes in accordance with IAS 39:
• Financial instruments measured at amortized cost
• Financial instruments measured at fair value

Different valuation categories are allocated to these two classes. Financial instruments assigned to the valuation categories “Available for sale” and “Held for trading” are essentially measured at fair value. Securities and time deposits recognized as other financial assets, and also financial investments are categorized as “Held for sale.” Only the derivative financial instruments held by the Henkel Group which are not included in hedge accounting are designated as “Held for trading.” All other financial instruments including the financial assets categorized as “Loans and receivables” are recognized at amortized cost using the effective interest method. The measurement categories “Held to maturity” and “Fair value option” are not used within the Henkel Group.

The financial instruments in the measurement category “Loans and receivables” are non-derivative financial instruments. They are characterized by fixed or determinable payments and are not traded in an active market. Within the Henkel Group, this category is mainly comprised of trade accounts receivable, cash and cash equivalents, and other financial assets with the exception of derivatives, securities and time deposits. The carrying amounts of the financial instruments categorized as loans and receivables approximate to their fair value due to their predominantly short-term nature. If there are doubts as to the realizability of these financial instruments, they are recognized at amortized cost less appropriate individual valuation allowances or global valuation allowances for bad debts.

Financial instruments in the category “Available for sale” are not derivative financial assets and are, provided that it is reliably determinable, recognized at fair value. If the fair value cannot be reliably determined, they are recognized at cost. Value changes between the reporting dates are essentially recognized in the consolidated statement of comprehensive income (revaluation reserve) without affecting revenue, unless the cause lies in permanent impairment. Impairment losses are recognized through profit or loss. When the asset is derecognized, the amounts recognized in the

revaluation reserve are released through profit or loss. In the Henkel Group, the securities and time deposits recognized under other financial assets and also the financial investments are categorized as "Available for sale." The fair values of the securities and time deposits are based on quoted market prices. As the fair values of the financial investments cannot be reliably determined, they are measured at amortized cost. The sale or disposal of these financial instruments is not currently intended.

The derivative financial instruments not included in a designated hedging relationship and therefore categorized as held for trading are essentially recognized at their fair value. All fair value changes are recognized through profit or loss. In order to avoid profit and loss variations arising from fair value changes in derivative financial instruments, in individual cases – where possible and economically sensible – hedge accounting is applied. Depending on the type of underlying and the risk needing to be hedged, fair value and cash flow hedges are also designated within the Group. Details relating to the hedging contracts transacted within the Group and how the fair values of the derivatives are determined are provided on AR pages 131 to 133.

All financial liabilities, with the exception of derivative financial instruments, are essentially recognized at amortized cost using the effective interest method.

Borrowings for which a hedging transaction has been concluded that meets the requirements of IAS 39 with respect to hedge accounting are recognized through hedge accounting.

Carrying amounts and fair values of financial instruments

December 31, 2010 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	
Assets					
Loans and receivables	3,615	3,615	–	–	3,615
Trade accounts receivable	1,893	1,893	–	–	1,893
Other financial assets	207	207	–	–	207
Cash and cash equivalents	1,515	1,515	–	–	1,515
Available for sale	384	22	362	–	384
Other financial assets	384	22	362	–	384
Held for trading	83	–	–	83	83
Derivative financial instruments not included in a designated hedging relationship	83	–	–	83	83
Derivative financial instruments included in a designated hedging relationship	248	–	–	248	248
Total	4,330	3,637	362	331	4,330
Liabilities					
Amortized cost	6,475	6,475	–	–	6,460
Trade accounts payable	2,308	2,308	–	–	2,308
Borrowings with no financial statement hedging relationship	571	571	–	–	571
Borrowings with a financial statement hedging relationship	3,535	3,535	–	–	3,520
Other financial liabilities	61	61	–	–	61
Held for trading	89	–	–	89	89
Derivative financial instruments not included in a designated hedging relationship	89	–	–	89	89
Derivative financial instruments included in a designated hedging relationship	70	–	70	–	70
Total	6,634	6,475	70	89	6,619

December 31, 2011 in million euros	Carrying amount December 31	Valuation according to IAS 39 Amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	Fair value December 31
Assets					
Loans and receivables	4,330	4,330	–	–	4,330
Trade accounts receivable	2,001	2,001	–	–	2,001
Other financial assets	349	349	–	–	349
Cash and cash equivalents	1,980	1,980	–	–	1,980
Available for sale	381	19	362	–	381
Other financial assets	381	19	362	–	381
Held for trading	8	–	–	8	8
Derivative financial instruments not included in a designated hedging relationship	8	–	–	8	8
Derivative financial instruments included in a designated hedging relationship	256	–	–	256	256
Total	4,975	4,349	362	264	4,975
Liabilities					
Amortized cost	6,387	6,387	–	–	6,316
Trade accounts payable	2,411	2,411	–	–	2,411
Borrowings with no financial statement hedging relationship	363	363	–	–	363
Borrowings with a financial statement hedging relationship	3,550	3,550	–	–	3,479
Other financial liabilities	63	63	–	–	63
Held for trading	24	–	–	24	24
Derivative financial instruments not included in a designated hedging relationship	24	–	–	24	24
Derivative financial instruments included in a designated hedging relationship	51	–	51	–	51
Total	6,462	6,387	51	24	6,391

The following hierarchy is applied in order to determine and disclose the fair value of financial instruments:

- Level 1: Fair values which are determined on the basis of quoted, unadjusted prices in active markets.
- Level 2: Fair values which are determined on the basis of parameters for which either directly or indirectly derived market prices are available.
- Level 3: Fair values which are determined on the basis of parameters for which the input factors are not derived from observable market data.

The securities categorized within the Henkel Group as available for sale and measured at fair value fall under fair value hierarchy level 1, while derivative financial instruments fall under fair value hierarchy level 2.

Net gains and losses from financial instruments by category

The net gains and losses from financial instruments can be allocated to the following categories:

Net results of the measurement categories and reconciliation to financial result

in million euros	2010	2011
Loans and receivables	52	66
Available for sale	5	9
Held for trading including derivatives in a designated hedging relationship	– 37	43
Financial liabilities measured at amortized cost	–230	–220
Total net results	– 210	–102
Foreign exchange effects	58	–59
Interest expense of pension provisions less expected return from plan assets and reimbursement rights	–10	5
Other financial result (not related to financial instruments)	– 9	1
Financial result	– 171	–155

The net result of loans and receivables is allocated in full to interest income. Expenses arising from valuation allowances amounting to 39 million euros (previous year: 41 million euros) and income from write-ups amounting to 2 million euros (previous year: 3 million euros) were recognized in operating profit.

The net result from securities and time deposits classified as available for sale breaks down to 9 million euros (previous year: 4 million euros) for interest income and 0 million euros (previous year: 1 million euros) for income from financial investments. The measurement of these financial instruments at fair value led to an impairment charge of 2 million euros (previous year: 0 million euros) which was recognized in the reserve for financial instruments available for sale in other comprehensive income.

The net result from "Held for trading" financial instruments plus derivatives included in a designated hedging relationship includes, in addition to the outcome of remeasurement of these derivatives to fair value amounting to 11 million euros (previous year: –92 million euros), an expense of 4 million euros (previous year: 0 million euros) arising from the valuation allowance made for counterparty credit risk. Also recognized under this heading is the interest income arising from interest rate hedging instruments amounting to 36 million euros (previous year: 55 million euros).

The net result from financial liabilities measured at amortized cost is essentially derived from the interest expense for borrowings amounting to 217 million euros (previous year: 227 million euros). Fees for procuring money and loan resources amounting to 3 million euros (previous year: 3 million euros) were also recognized under this heading. The realization and valuation of financial assets and liabilities in foreign currencies resulted in an expense of –59 million euros (previous year: gain of 58 million euros).

Derivative financial instruments

Derivative financial instruments are measured at their fair value at the reporting date. Recognition of the gains and losses arising from fair value changes of derivative financial instruments is dependent upon whether the requirements of IAS 39 are fulfilled with respect to hedging relationships (hedge accounting).

Hedge accounting is not applied to the large majority of derivative financial instruments. The fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of Group strategy, are recognized through profit or loss. These are, however, largely compensated by fair value changes undergone by the hedged items.

In hedge accounting, derivative financial instruments are qualified as instruments for hedging the fair value of a recognized underlying ("fair value hedge"), as instruments for hedging future cash flows ("cash flow hedge") or as instruments for hedging a net investment in a foreign entity.

The following table provides an overview of the derivative financial instruments utilized and recognized within the Group, and their fair values:

Derivative financial instruments

At December 31 in million euros	Nominal value		Positive fair value[2]		Negative fair value[2]	
	2010	2011	2010	2011	2010	2011
Forward exchange contracts[1]	2,396	1,445	77	7	– 89	–23
(of which: for hedging loans within the Group)	(1,848)	(881)	(75)	(4)	(– 83)	(–14)
Interest rate swaps	4,797	4,537	248	256	– 70	–51
(of which: designated as fair value hedge)	(3,300)	(3,300)	(248)	(256)	(–)	(–)
(of which: designated as cash flow hedge)	(1,497)	(1,237)	(–)	(–)	(– 70)	(–51)
Other interest rate hedging instruments	500	386	2	–	–	–
(of which: designated for hedge accounting)	(–)	(–)	(–)	(–)	(–)	(–)
Commodity futures[1]	44	39	4	1	–	–1
(of which: designated for hedge accounting)	(–)	(–)	(–)	(–)	(–)	(–)
Total derivative financial instruments	**7,737**	**6,407**	**331**	**264**	**– 159**	**–75**

[1] Maturity shorter than 1 year.
[2] Fair values including accrued interest and a valuation allowance for counterparty credit risk of 4.8 million euros (prior year: 0.8 million euros).

For forward exchange transactions, the fair value is determined on the basis of the reference exchange rates of the European Central Bank prevailing at the reporting date, taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted foreign exchange rate. Foreign exchange options are measured using price quotations or recognized models for the determination of option prices. Interest rate hedging instruments are measured on the basis of discounted cash flows expected in the future, taking into account market interest rates applicable for the remaining term of the contracts. These are indicated for the two most important currencies in the following table. It shows the interest rates quoted on the inter-bank market in each case as of December 31.

Interest rates in percent p.a.

At December 31	EUR		USD	
Term	2010	2011	2010	2011
3 months	0.96	**1.36**	0.48	**0.69**
6 months	1.23	**1.84**	0.40	**0.76**
1 year	1.51	**1.95**	0.88	**1.23**
2 years	1.53	**1.29**	0.82	**0.75**
5 years	2.50	**1.73**	2.23	**1.27**
10 years	3.35	**2.42**	3.56	**2.10**

Due to the complexities involved, financial derivatives entered into as hedges of commodity price risks are primarily measured on the basis of bank-developed simulation models, which are derived from market quotations. Regular plausibility checks are performed in order to safeguard valuation correctness.

In measuring derivative financial instruments, counterparty credit risk is taken into account with a lump-sum adjustment to the fair values concerned, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2011 amounts to 4.8 million euros (previous year: 0.8 million euros). The addition was expensed under financial result.

Depending on their fair value and their maturity on the reporting date, derivative financial instruments are included in financial assets (positive fair value) or in financial liabilities (negative fair value).

Most of the forward exchange contracts and currency options serve to hedge risks arising from trade accounts receivable and payable, and those pertaining to Group financing in US dollars.

The interest rate hedging instruments are entered into in order to manage the interest rate risks arising from the fixed-interest bonds issued by Henkel AG & Co. KGaA and the floating-interest bank liabilities (loans and overdrafts) entered into by Henkel of America, Inc. See also the following explanations relating to fair value hedges and cash flow hedges, and also with respect to the interest rate risk exposure of the Henkel Group.

To a lesser extent, commodity derivatives are used to hedge uncertainties in future commodity price developments. See also the explanations relating to other price risks on AR page 138.

Fair value hedges: A fair value hedge hedges the fair value of recognized assets and liabilities. The change in the fair value of the derivatives and the change in the fair value of the underlying relating to the hedged risk are simultaneously recognized in profit or loss.

Receiver interest rate swaps are used to hedge the fair value risk of the fixed-interest bonds issued by Henkel AG & Co. KGaA. The fair value of these interest rate swaps is 199 million euros (previous year: 185 million euros) excluding accrued interest. The changes in fair value of the receiver interest rate swaps arising from market interest rate risks amounted to 14 million euros (previous year: 72 million euros). The corresponding changes in fair value of the hedged bonds amounted to –15 million euros (previous year: –69 million euros). In determining the fair value change in the bonds (see also Note 17 on AR page 126), only that portion is taken into account that relates to the interest rate risk.

The following table provides an overview of the gains and losses arising from fair value hedges (valuation allowance made for the counterparty credit risk not included):

Gains and losses from fair value hedges

in million euros	2010	2011
Losses (–) from hedged items	– 69	**–15**
Gains (+) from hedging instruments	72	**14**
Balance	**3**	**–1**

Cash flow hedges: A cash flow hedge safeguards against the fluctuations in future cash flows from recognized assets and liabilities (in the case of interest rate risks), and also transactions that are either planned or highly probable, or firmly contracted unrecognized financial commitments, from which a currency risk arises. The effective portion of a cash flow hedge is recognized in the hedge reserve under equity. Ineffective portions arising from the change in value of the hedging instrument are recognized through profit or loss in the financial result. The gains and losses associated with the hedging measures initially remain in equity and are subsequently recognized through profit or loss in the period in which the hedged transaction influences the results for that period. If the hedging of a contracted item subsequently results in the recognition of a non-financial asset, the gains and losses recognized in equity are usually assigned to the asset on its addition (basis adjustment).

Cash flow hedges
(after tax)

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2011	−351	4	–	−347
2010	−276	−75	–	−351

The initial value of the cash flow hedges recognized in equity reflects firstly the fair values of the payer interest swaps used to hedge the cash flow risks arising from floating-interest US dollar liabilities at Henkel of America, Inc., and secondly forward exchange contracts taken out in previous years in the course of the acquisition of the National Starch businesses.

The addition in the amount of 4 million euros after taxes on income relates to the interest rate hedge of the US dollar liabilities of Henkel of America, Inc. The fair value of interest rate swaps for the US dollar liabilities of Henkel of America, Inc. amounts to −50 million euros (previous year: −69 million euros) excluding accrued interest. In the fiscal year under review, ineffective portions amounting to 0.2 million euros (previous year: 0.4 million euros) were recognized in profit or loss under financial result. The cash flows arising from hedging the floating interest rate of the US dollar liabilities of Henkel of America, Inc. are expected in the period from 2012 to 2014 and will be recognized through profit or loss in the periods concerned as interest expense. The hedged cash flows relating to the acquisition of the National Starch businesses will only be recognized in operating profit with disposal or in the event of an impairment loss on the goodwill attributable to the acquisition of these businesses.

Hedges of a net investment in a foreign entity: The accounting treatment of hedges in a net investment in a foreign entity against translation risk is similar to that applied to cash flow hedges. The gain or loss arising from the effective portion of the hedging instrument is recognized in equity through other comprehensive income; the gain or loss of the ineffective portion is recognized directly through profit or loss. The gains or losses recognized directly in equity remain there until disposal or partial disposal of the net investment.

The items recognized in equity relate to translation risks arising from net investments in Swiss francs (CHF) and US dollars (USD) for which the associated hedges were entered into and settled in previous years.

In the past financial year, no hedges of a net investment in a foreign entity were entered into. No amounts were transferred in the course of the year from equity to profit or loss.

Hedges of a net investment in a foreign entity
(after tax)

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2011	69	–	–	69
2010	53	16	–	69

Risks arising from financial instruments, and risk management
As a globally active corporation, Henkel is exposed in the course of its ordinary business operations to credit risks, liquidity risks and market risks (currency translation, interest rate and commodity price risks). The purpose of financial risk management is to restrict the exposure arising from operating activities through the use of selective derivative and non-derivative hedges. Henkel uses derivative financial instruments exclusively for the purposes of risk management. Without these instruments, Henkel would be exposed to higher financial risks. Changes in exchange rates, interest rates or commodity prices can lead to significant fluctuations in the fair values of the derivatives used. These variations in fair value should not be regarded in isolation from the hedged items, as derivatives and the underlying constitute a unit in terms of forex countervalue fluctuation.

Management of currency, interest rate and liquidity risks is based on the treasury guidelines introduced by the Management Board, which are binding on the entire corporation. Defined in these are the targets, principles, accountability and competences of Corporate Treasury. They describe the fields of responsibility and establish the distribution of these responsibilities between the Corporate Treasury department and Henkel's subsidiaries. The Management Board is regularly and comprehensively informed of all major risks and of all relevant hedging transactions and arrangements. The objectives and fundamental principles adopted in capital management are described in the Management Report on AR pages 62 and 63.

There were no major risk clusters in the year under review.

Credit risk

In the course of business activities with third parties, the Henkel Group is exposed to global credit risk arising from both its operating business and its financial investments. This risk derives from the possibility of a contractual party not fulfilling its obligations.

The maximum credit risk is represented by the carrying value of the financial assets recognized in the statement of financial position, as indicated in the following table:

Maximum risk position

in million euros	2010	2011
Trade accounts receivable	1,893	2,001
Derivative financial instruments not included in a designated hedging relationship	83	8
Derivative financial instruments included in a designated hedging relationship	248	256
Other financial assets	591	730
Cash and cash equivalents	1,515	1,980
Total carrying values	4,330	4,975

In its operating business, Henkel is confronted by progressive concentration and consolidation on the customer side, reflected in the receivables from individual customers.

A credit risk management system operating on the basis of a globally applied credit policy ensures that credit risks are constantly monitored and bad debts minimized. This policy, which applies to both new and existing customers, governs the allocation of credit limits and compliance with those limits, individual analyses of customers' creditworthiness based on both internal and external financial information, risk classification, and continuous monitoring of the risk of bad debts at the local level. Our key customer relationships are also monitored at the regional and global level. In addition, hedging measures are implemented on a selective basis for particular countries and customers inside and outside the euro zone.

Collateral received and other safeguards include country-specific and customer-specific protection afforded by credit insurance, confirmed and unconfirmed letters of credit in the export business, as well as warranties, guarantees and cover notes.

Valuation allowances are made in respect of financial assets so that those assets are recognized at their fair value as of the reporting date. In the case of impairment losses that have already occurred but have not yet been identified, global valuation allowances are made on the basis of empirical evidence, taking into account the overdue structure. Financial assets that are more than 180 days overdue are, following the impairment test, generally written off.

In all, we recognized individual valuation allowances on loans and receivables in 2011 in the amount of 35 million euros (previous year: 35 million euros) and global valuation allowances in the amount of 4 million euros (previous year: 6 million euros).

The carrying amount for loans and receivables, the term of which was renegotiated because they would have otherwise fallen overdue or been impaired, was 1 million euros (previous year: 0 million euros).

Based on our experience, we do not expect the necessity to arise for any further valuation allowances, other than those described above, on non-overdue, non-impaired financial assets.

Age analysis of non-impaired overdue loans and receivables

Analysis

in million euros	Less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	Total
At December 31, 2011	130	35	14	2	181
At December 31, 2010	96	28	10	3	137

Credit risks also arise from financial investments such as cash at bank, securities, time deposits and the positive fair value of derivatives. Such exposure is limited by our Corporate Treasury specialists through selection of banks of good reputation with at least an “A” rating, and restriction of the amounts allocated to individual investments. In financial investments and derivatives trading with German and international banks, we only enter into transactions with counterparties of the highest financial standing. Financial investments are generally undertaken for periods of less than one year and are widely diversified between both different counterparties and also different investment types. To minimize the credit risk, netting arrangements are agreed with counterparties and investment limits are set. These limits are based on the credit rating of the counterparty and are regularly monitored and adjusted. Besides relevant ratings, certain other indicators such as the pricing of credit default swaps (CDS) by the banks are applied in determining the limits. We additionally enter into collateral agreements with selected banks, on the basis of which reciprocal sureties are established to hedge the fair values of contracted derivatives and other claims and obligations. Effective December 31, 2011, the balance of collateral received from such banks and paid to such banks amounted to 70 million euros.

Liquidity risk

Liquidity risk is defined as the risk of an entity failing to meet its financial obligations at any given time.

We minimize this risk by deploying long-term financing instruments in the form of bonds. In order to secure the financial flexibility of the Henkel Group at any time, the liquidity within the Group is extensively centralized and managed through the use of cash pools. We predominantly invest cash in financial assets traded in a liquid market in order to ensure that they can be sold at any time to procure liquid funds. In addition, the Henkel Group has at its disposal confirmed credit lines of 2.1 billion euros to ensure its liquidity and financial flexibility at all times. These credit lines were contracted to secure the commercial paper program and they have terms extending to 2012 and 2015. The individual subsidiaries of the Henkel Group additionally have at their disposal committed bilateral loans of 0.4 billion euros with a revolving term of up to one year. Our credit rating is regularly assessed by the rating agencies Standard & Poor’s and Moody’s.

Our liquidity risk can therefore be regarded as very low.

The maturity structure of the original and derivative financial liabilities within the scope of IFRS 7 based on cash flows is shown in the following table.

Cash flows from financial liabilities

in million euros	December 31, 2010 Carrying amount	Remaining term: Up to 1 year	Between 1 and 5 years	More than 5 years	December 31, 2010 Total cash flows
Bonds [1]	3,687	313	3,736	–	4,049
Commercial papers [2]	79	79	–	–	79
Liabilities to banks	335	240	100	2	342
Trade accounts payable	2,308	2,308	–	–	2,308
Sundry financial instruments [3]	66	62	4	–	66
Original financial instruments	6,475	3,002	3,840	2	6,844
Derivative financial instruments	159	119	41	–	160
Total	6,634	3,121	3,881	2	7,004

[1] The cash flows from the hybrid bond issued in 2005 are disclosed for the period until the first possible redemption date by Henkel on November 25, 2015.
[2] From the euro and US dollar commercial paper program (total volume: 2.1 billion euros).
[3] Sundry financial instruments include amounts due from customers and finance bills. These prior-year figures have been adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

Cash flows from financial liabilities

in million euros	December 31, 2011 Carrying amount	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	December 31, 2011 Total cash flows
Bonds[1]	3,670	284	3,644	–	3,928
Commercial papers[2]	29	29	–	–	29
Liabilities to banks	209	201	12	2	215
Trade accounts payable	2,411	2,411	–	–	2,411
Sundry financial instruments[3]	68	61	4	3	68
Original financial instruments	6,387	2,986	3,660	5	6,651
Derivative financial instruments	75	45	30	–	75
Total	6,462	3,031	3,690	5	6,726

[1] The cash flows from the hybrid bond issued in 2005 are disclosed for the period until the first possible redemption date by Henkel on November 25, 2015.
[2] From the euro and US dollar commercial paper program (total volume: 2.1 billion euros).
[3] Sundry financial instruments include amounts due from customers and finance bills.

Market risk

Market risks exist where the fair value or future cash flows of a financial instrument may fluctuate due to changes in market prices. Market risks primarily take the form of currency risk, interest rate risk and various price risks (particularly the commodity price risk).

The Corporate Treasury department manages currency exposure and interest rates centrally for the Group and is therefore responsible for all transactions with financial derivatives and other financial instruments. Trading, Treasury Controlling and Settlement (front, middle and back offices) are separated both physically and in terms of organization. The parties to the contracts are German and international banks which Henkel monitors regularly, in accordance with Corporate Treasury guidelines, for creditworthiness and the quality of their quotations. Financial derivatives are used to manage currency exposure and interest rate risks in connection with operating activities and the resultant financing requirements, again in accordance with the Treasury guidelines. Financial derivatives are entered into exclusively for hedging purposes.

The currency and interest rate risk management of the Group is supported by an integrated treasury system which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, "integrated" means that the entire process from the initial recording of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multi-bank dealing platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are integrated into the treasury system by data transfer. As a result, it is possible to retrieve and measure at any time all currency and interest rate risks across the Group and all derivatives entered into to hedge the exposure to these risks. The treasury system supports the use of various risk concepts.

Market risk is monitored on the basis of sensitivity analyses and value-at-risk computations. Sensitivity analyses enable estimation of potential losses, future gains, fair values or cash flows of instruments susceptible to market risks arising from one or several selected hypothetical changes in foreign exchange rates, interest rates, commodity prices or other relevant market rates or prices over a specific period. Sensitivity analyses are used in the Henkel Group because they enable reasonable risk assessments to be made on the basis of direct assumptions (e.g. an increase in interest rates). Value-at-risk computations reveal the maximum potential future loss of a certain portfolio over a given period that, based on a specified probability level, will not be exceeded.

Currency risk

The global nature of our business activities results in a huge number of cash flows in different currencies. The resultant currency risk breaks down into two categories, namely transaction and translation risks.

Transaction risks arise from possible exchange rate fluctuations causing changes in the value of future foreign currency cash flows. The hedging of the resultant exchange rate risks forms a major part of our central risk management activity. Transaction risks arising from our operating business are partially avoided by the fact that we largely manufacture our products in those countries in which they are sold. Residual transaction risks on the operating side are proactively managed by Corporate Treasury. This includes the ongoing assessment of specific currency risk and the development of appropriate hedging strategies. The objective of our currency hedging is to fix prices based on hedging rates so that we are protected from future adverse fluctuations in exchange rates.

Because we limit our potential losses, any negative impact on profits is restricted. The transaction risk arising from major financial payables and receivables is, for the most part, hedged. In order to manage these risks, we primarily utilize forward exchange contracts and currency swaps. To avoid complexity and given the costs and benefits involved, we do not apply hedge accounting for the derivatives employed. The derivatives are designated as held for trading and are recognized at fair value through profit or loss. The currency risk that exists within the Group in the form of transaction risk therefore has a direct effect on income rather than being recognized in equity.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2011 amounted to 16 million euros after hedging (previous year: 17 million euros). The value-at-risk shown represents the maximum expected risk of loss in a month as a result of currency fluctuations. The risk arises from imports and exports by Henkel AG & Co. KGaA and its foreign subsidiaries. Due to the international nature of its activities, the Henkel Group has a portfolio with more than 50 different currencies. In addition to the US dollar, the main influence on currency risk is exerted by the Russian ruble, the Mexican peso, the Turkish lira, the Canadian dollar and the Japanese yen. The value-at-risk analysis assumes a time horizon of one month and a unilateral confidence interval of 95 percent. The calculation is based on the variance-covariance approach. Fluctuations and correlations are determined using historical data. The value-at-risk analysis is based on the operating book positions and budgeted positions in foreign currency, with a forecasting horizon of up to twelve months.

Translation risks emanate from changes caused by foreign exchange fluctuations to items on the statement of financial position and the income statement of a subsidiary, and the effect these changes have on the translation of individual company financial statements into Group currency. However, unlike transaction risk, translation risk does not necessarily impact future cash flows. The Group's equity reflects the changes in carrying value resulting from foreign exchange influences. The risks arising from the translation of the earnings results of subsidiaries in foreign currencies and from net investments in foreign entities are only hedged in exceptional cases.

Interest rate risk

The interest rate risk encompasses those potentially positive or negative influences on profits, equity or cash flow in current or future reporting periods arising from changes in interest rates. In the case of fixed-interest financial instruments, changing capital market interest rates result in a fair value risk, as the attributable fair values fluctuate depending on capital market interest rates. In the case of floating-interest financial instruments, a cash flow risk exists because the interest payments may be subject to future fluctuations.

The Henkel Group obtains and invests the majority of the cash it requires from the international money and capital markets. The resulting financial liabilities and our cash deposits may be exposed to the risk of changes in interest rates. The aim of our centralized interest rate management system is to manage this risk by selecting appropriate maturities and through the use of derivative financial instruments. Only those derivative financial instruments that can be modeled, monitored and assessed in the risk management system may be used to hedge the interest rate risk.

Henkel's interest management strategy is essentially aligned to optimizing the net interest result for the Group. The decisions taken in interest management relate to the bonds issued to secure Group liquidity, and other financial instruments. The financial instruments and interest rate derivatives exposed to interest rate risk are denominated in euros and US dollars.

Depending on forecasts with respect to interest rate developments, Henkel enters into derivative financial instruments, primarily interest rate swaps, in order to optimize the interest rate lock-down structure. The coupon interest on the euro-denominated bonds issued by Henkel has been converted from fixed to floating with the aid of interest rate swaps. In the event of an expected rise in interest rate levels, Henkel protects its positions by transacting additional interest rate caps and forward rate agreements as an effective means of guarding against interest rates rising over the short term. A major portion of the financing of Henkel of America, Inc. in US dollars has been converted from floating to fixed interest rates through interest rate swaps. As a result, the net interest position comprises a structured mix of fixed US dollar and floating euro interest rates.

Our exposure to interest rate risk at the reporting dates 2010 and 2011 was as follows:

Interest rate exposure

	Carrying amounts	
in million euros	2010	2011
Fixed-interest financial instruments		
Euro	–	–
US dollar	1,497	1,237
Others	–	–
	1,497	1,237
Floating-interest financial instruments		
Euro	337	170
US dollar	202	212
Others	–33	–304
	506	78

The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the main financial instruments which bear interest at a variable rate at the statement of financial position date. Securities, time deposits, fixed-interest instruments and interest hedging instruments are deducted from net borrowings. The interest rate risk figures shown in the table are based on this calculation at the relevant reporting date, assuming a parallel shift in the interest curve of 100 basis points. The analysis of fair value risk also assumes a parallel shift in the interest curve of 100 basis points, with the hypothetical loss or gain of the relevant interest rate derivatives at the reporting date being calculated accordingly. The fixed-interest financial instruments exposed to fair value risk are essentially the fixed interest rate bank liabilities denominated in US dollars.

The risk of interest rate fluctuations with respect to the earnings of the Henkel Group is shown in the basis point value (BPV) analysis in the table below.

Interest rate risk

in million euros	2010	2011
Based on an interest rate rise of 100 basis points	52	27
of which:		
Cash flow through profit and loss	10	5
Fair value recognized in equity through comprehensive income	42	22

Other price risks (commodity price risk)

Uncertainty with respect to raw material price development impacts Group business. Purchase prices for raw materials can affect the net assets, financial position and results of operations of the corporation. The risk management strategy put in place by the Group management for safeguarding against the procurement market risk is described in more detail in the risk report on AR pages 89 and 90.

As a small part of the risk management strategy, cash-settled commodity futures are entered into on the basis of forecasted purchasing requirements in order to hedge future uncertainties with respect to commodity prices. Cash-settled commodity derivatives are only used at Henkel where there is a direct relationship between the hedging derivative and the physical underlying. Henkel does not practice hedge accounting and is therefore exposed to temporary price risks when holding commodity derivatives. Such price risks arise due to the fact that the commodity derivatives are measured at fair value whereas the purchasing requirement, as a pending transaction, is not measured or recognized. This can lead to losses being recognized in profit or loss and equity. Developments in fair values and the resultant risks are continuously monitored.

The influence of negative commodity price developments on the valuation of the derivatives employed is immaterial to the financial position of the Henkel Group due to the low volume of derivatives used. In the event of a change in commodity prices of 10 percent, the resultant loss would be less than 1 million euros.

Notes to the consolidated statement of income

(22) Sale proceeds and principles of income realization

Sales increased from 15,092 million euros to 15,605 million euros.

Revenues and their development by business sector and region are summarized in the Group segment report and in the key financials by region on AR pages 103 and 104. A detailed explanation of the development of major income and expense items can be found in the management report on AR pages 58 and 59.

Sales comprise sales of goods and services less sales deductions such as customer-related rebates, credits and other benefits paid or granted. Sales are recognized once the goods have been delivered or the service has been performed. In the case of goods, this coincides with the physical delivery and transfer of risks and rewards. Henkel uses different terms of delivery determining the transfer of risks and rewards. It must also be probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred in respect of the transaction must be reliably measurable.

Services are generally provided in conjunction with the sale of goods, and recorded once the service has been performed. No sale is recognized if there are significant risks relating to the receipt of the consideration or it is likely that the goods will be returned.

Interest income is recognized on a time-proportion basis that takes into account the effective yield on the asset and the interest rate in force. Dividend income from investments is recognized when the shareholder's right to receive payment is legally established.

(23) Cost of sales

The cost of sales rose from 8,078 million euros to 8,538 million euros.

Cost of sales comprises the cost of products and services sold and the purchase cost of merchandise sold. It consists of the directly attributable cost of materials and primary production cost, as well as indirect production overheads including the production-related amortization and depreciation of intangible assets and property, plant and equipment.

(24) Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,132 million euros (previous year: 4,257 million euros).

In addition to marketing organization and distribution expenses, this item comprises, in particular, advertising, sales promotion and market research expenses. Also included here are the expenses of technical advisory services for customers, and valuation allowances on trade accounts receivable.

(25) Research and development expenses

Research and development expenses rose compared to the previous year by 19 million euros to 410 million euros.

Research expenditures may not be recognized as an asset. Development expenditures are recognized as an asset if all the criteria for recognition are met, the research phase can be clearly distinguished from the development phase and the expenditures can be attributed to distinct project phases. Currently, the criteria set out in IAS 38 "Intangible Assets" for recognizing development expenditures are not all being met, due to a high level of interdependence within the development projects and the difficulty of assessing which products will eventually be marketable.

(26) Administrative expenses

Administrative expenses amounted to 785 million euros (previous year: 750 million euros).

Administrative expenses include personnel and non-personnel costs of Group management and costs relating to the Human Resources, Purchasing, Accounting and IT departments.

(27) Other operating income

Other operating income

in million euros	2010	2011
Release of provisions [1]	68	37
Gains on disposal of non-current assets	19	15
Insurance claim payouts	12	7
Write-ups of non-current assets	6	1
Release of valuation allowances for bad debts	3	2
Profits on sale of businesses	3	62
Sundry operating income	105	85
Total	**216**	**209**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 3 million euros (previous year: 18 million euros).

Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as rent income, grants and subsidies, bonus credits and similar income.

(28) Other operating charges

Other operating charges

in million euros	2010	2011
Losses on disposal of non-current assets	14	9
Goodwill impairment losses	6	–
Write-downs on assets held for sale	–	2
Write-downs on other assets	1	5
Sundry operating expenses	88	76
Total	**109**	**92**

Sundry operating expenses relate to a number of individual items arising from ordinary operating activities, such as contractual termination severance payments, compensation settlements and similar expenses.

(29) Financial result

Financial result

in million euros	2010	2011
Investment result	1	–
Interest result	–172	–155
Total	**–171**	**–155**

Investment result

in million euros	2010	2011
Income from other investments	–	–
Other	1	–
Total	**1**	**–**

Interest result

in million euros	2010	2011
Interest and similar income from third parties [1]	17	34
Expected return on plan assets less interest expense for pension provisions [2]	–	1
Expected return on reimbursement rights (IAS 19)	6 [3]	4
Other financial income	2	6
Total interest income	**25**	**45**
Interest to third parties [1]	–134 [3]	–145
Other financial charges	–47	–55
Interest expense for pension provisions less expected return on plan assets [2]	–16 [3]	–
Total interest expense	**–197**	**–200**
Total	**–172**	**–155**

[1] Including interest income and interest expense, both in the amount of 41 million euros (previous year: 39 million euros), in respect of mutually offset deposits and liabilities to banks, reported on a net basis.
[2] Interest expense of 179 million euros and expected interest income of 180 million euros (previous year: interest expense of 187 million euros and expected interest income of 171 million euros).
[3] Prior-year figures adjusted (see "Recognition and measurement methods" on AR pages 108 and 109).

An overview on the net results by measurement category (IFRS 7) and a reconciliation to the financial result is provided on AR page 130 in Note 21 "Financial instruments report."

(30) Taxes on income

Earnings before taxes on income and analysis of taxes

in million euros	2010	2011
Earnings before tax	**1,552**	**1,702**
Current taxes	424	384
Deferred taxes	–15	35
Taxes on income	**409**	**419**
Tax rate in percent	*26.4%*	*24.6%*

Main components of tax expense and income

in million euros	2010	2011
Current tax expense/income in the reporting year	432	455
Current tax adjustments for prior years	–8	–71
Deferred tax expense/income from temporary differences	–25	14
Deferred tax expense/income from unused tax losses	38	22
Deferred tax expense/income from tax credits	3	2
Deferred tax expense/income from changes in tax rates	6	–5
Increase/decrease in valuation allowances on deferred tax assets	–37	2

In accordance with IAS 12, deferred tax assets and liabilities are recognized with respect to temporary differences between the statement of financial position valuation of an asset or liability and its tax base, unused tax losses and tax credits.

Deferred taxes are calculated on the basis of the tax rates that are applicable or anticipated in the individual countries at the time of realization or utilization. In Germany there is a uniform corporate income tax rate of 15 percent plus a solidarity tax of 5.5 percent. After taking into account trade tax, this yields an overall tax rate of 31 percent.

Deferred tax assets are recognized where it is likely that sufficient taxable income will be generated in future to realize the corresponding benefit.

Deferred tax assets and liabilities are netted where they involve the same tax authority and the same tax creditor.

The deferred tax assets and liabilities stated at December 31, 2011 relate to the following items of the consolidated statement of financial position, unused tax losses and tax credits:

Allocation of deferred taxes

in million euros	Deferred tax assets		Deferred tax liabilities	
	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Intangible assets	122	99	669	674
Property, plant and equipment	23	19	86	87
Financial assets	1	2	7	7
Inventories	41	39	5	5
Other receivables and other assets	63	63	143	108
Special tax-allowable items	–	–	49	46
Provisions	409	522	6	8
Liabilities	188	144	11	12
Tax credits	11	9	–	–
Unused tax losses	106	52	–	–
	964	949	976	947
Amounts netted	– 560	–466	– 560	–466
Valuation allowances	– 46	–18	–	–
Financial statement figures	358	465	416	481

The deferred tax assets amounting to 522 million euros (previous year: 409 million euros) relating to provisions in the financial statement result primarily from recognition and measurement differences with respect to pensions and similar obligations.

The deferred tax liabilities amounting to 674 million euros (previous year: 669 million euros) relating to intangible assets are chiefly attributable to business combinations such as the acquisition of the National Starch businesses in 2008.

Deferred taxes have not been recognized with respect to unused tax losses of 58 million euros (previous year: 144 million euros), as it is not sufficiently probable that taxable gains or benefits will be available against which they may be utilized. Of these tax losses carried forward, 6 million euros lapse within one year, 4 million euros within two years, 2 million euros within three years, 24 million euros after three years, with 22 million euros non-expiring.

The table below summarizes the expiry dates of unused tax losses and tax credits. This table includes unused tax losses arising from the disposal of assets of 12 million euros (previous year: 13 million euros) which may be carried forward without restriction. In many countries, different tax rates apply to losses on the disposal of assets and to operating profits, and in some cases losses on the disposal of assets may only be offset against gains on the disposal of assets.

Expiry dates of unused tax losses and tax credits

in million euros	Unused tax losses		Tax credits	
	December 31, 2010	December 31, 2011	December 31, 2010	December 31, 2011
Lapse within				
1 year	10	9	–	–
2 years	23	5	–	–
3 years	19	14	–	–
more than 3 years	364	254	11	9
May be carried forward without restriction	167	104	–	–
Total	583	386	11	9

Of unused tax losses lapsing beyond three years, 202 million euros (previous year: 222 million euros) relate to loss carry-forwards of US subsidiaries in respect of state taxes (tax rate about 5 percent).

Equity-increasing deferred taxes of 91 million euros were recognized in 2011 (previous year: equity-reducing amount of 33 million euros). Within this figure, 94 million euros is a net actuarial gain on pension obligations, this being offset by 3 million euros in net loss from cash flow hedges.

The individual company reports – prepared on the basis of the tax rates applicable in each country and taking into account consolidation procedures – have been summarized in the statement below, showing how the estimated tax charge, based on the tax rate applicable to Henkel AG & Co. KGaA of 31 percent, is reconciled to the effective tax charge disclosed.

Tax reconciliation statement

in million euros	2010	2011
Income before taxes on income	1,552	1,702
Tax rate (including municipal trade tax) on income of Henkel AG & Co. KGaA	31 %	31 %
Estimated tax charge	**481**	**528**
Tax reductions due to differing tax rates abroad	– 64	–64
Tax increases/reductions for prior years	9	–61
Tax increases/reductions due to changes in tax rates	6	–5
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	– 37	2
Tax reductions due to tax-free income and other items	– 46	–49
Tax increases due to non-deductible expenses	60	68
of which		
Non-deductible write-downs on intangible assets	2	–
Taxation effects arising from additions and reductions for local taxes	15	18
Non-deductible and non-offsettable withholding tax	12	20
Other non-deductible expenses	31	30
Tax charge disclosed	**409**	**419**
Effective tax rate	**26.4 %**	**24.6 %**

The decrease in the effective tax rate in 2011 to 24.6 percent (previous year: 26.4 percent) is primarily due to the successful conclusion of appeal proceedings and of transfer price negotiations between – among others – Germany and France, which had a beneficial effect on ongoing tax audits in a number of countries.

Deferred tax liabilities relating to the retained earnings of foreign subsidiaries have not been calculated due to the fact that these earnings are available to the entities concerned for their own use.

(31) Non-controlling interests

The amount shown here represents the proportion of net income and losses attributable to other shareholders of affiliated companies.

Their share of net income was 33 million euros (previous year: 31 million euros) and that of losses 3 million euros (previous year: 6 million euros).

Other disclosures

(32) Payroll cost

Payroll cost [1]

in million euros	2010	2011
Wages and salaries	2,012	2,052
Social security contributions and staff welfare costs	331	336
Pension costs	144	134
Total	**2,487**	**2,522**

[1] Excluding personnel-related restructuring charges of 140 million euros (previous year: 128 million euros).

Share-based payment plans

The objective of the Henkel Stock Incentive Plan introduced in the year 2000 is to provide additional motivation for about 700 senior executive personnel around the world. Participants in the plan are granted option rights to subscribe for Henkel preferred shares, which may be exercised for the first time once a vesting period of three years has elapsed. The exercise of rights must be within a period not exceeding five years after completion of the vesting period. Under the plan, rights were issued annually on a revolving basis, the relevant terms being revised each year by the Management Board and Shareholders' Committee. In 2004, options were issued for the last time, in this case to the members of the Management Board.

Each option granted originally carried the right to acquire up to eight Henkel preferred shares. After the 1:3 share split on June 18, 2007, the number of preferred shares per option right was trebled. The exact number of shares that can be bought per option at a specific price depends on the extent to which the performance targets are met. One target is based on absolute performance – the performance of the Henkel preferred share price. The other takes into account relative performance, comparing the movement in value of the Henkel preferred share with that of the Dow Jones Euro Stoxx (600) index. For both performance targets, the average market price of the Henkel preferred share at the date of issue is compared to the average market price three years later. The average market price is calculated in each case on the basis of 20 stock exchange trading days after the Annual General Meeting. The calculation of relative performance takes account of dividend payments and other rights and benefits as well as movements in the share price (total shareholder return). The subscription rights attached to an option are split into two categories. Taking the share split into account, up to 15 subscription rights can be exercised by reference to the absolute performance and up to nine subscription rights by reference to the relative performance.

Option rights are granted to members of the Management Board and corporate senior vice presidents, and to managers of comparable status within German and foreign affiliated companies, on condition that they make a direct investment of three preferred shares for each option right.

The total value of stock options granted to senior executive personnel at the grant date is determined using an option pricing model. The total value of the stock options calculated in this way is treated as a payroll cost spread over the period in which the corporation receives the service of the employee. For financial years since 2005, this cost in respect of the option rights granted in 2003 (tranche 4) and 2004 (tranche 5) is required to be expensed.

The table shows the number of option rights granted per tranche and the number of shares in the various tranches, taking into account the 1:3 share split of June 18, 2007. The vesting period has now expired for all the tranches. Because the exercise period for the fourth tranche expired on May 11, 2011, option rights that were not exercised have lapsed.

In 2004 for the fourth tranche and in 2007 for the fifth tranche, the Management Board decided to avail itself of the right to pay in cash the gain arising on the exercise of the options to the employees participating in the plan. The fifth tranche is treated as if it had been paid in shares.

Option rights / Subscribable preferred shares

in number of shares/options	4th tranche	5th tranche	Total
At January 1, 2011	**21,056**	**7,200**	**28,256**
expressed in preferred shares	*315,845*	*151,200*	***467,045***
Options granted	–	–	–
expressed in preferred shares	–	–	–
Options exercised[1]	12,986	2,648	**15,634**
expressed in preferred shares	*194,795*	*55,600*	***250,395***
Options forfeited	210	–	**210**
expressed in preferred shares	*3,150*	–	***3,150***
Lapsed options	7,860	–	**7,860**
expressed in preferred shares	*117,900*	–	***117,900***
At December 31, 2011	**–**	**4,552**	**4,552**
expressed in preferred shares	–	*95,600*	***95,600***

[1] Average price at exercise date: 46.68 euros.

At December 31, 2010, there was a provision of 8.3 million euros for the fourth tranche, of which 5.2 million euros was used in fiscal 2011. The amount released of 3.1 million euros increased earnings for the period.

The costs are calculated using the Black-Scholes option pricing model, modified to reflect the special features of the Stock Incentive Plan. The cost calculation was based on the following factors:

Black-Scholes option pricing model

		On issue 5th tranche
Exercise price (before share split)	in euros	71.28
Exercise price (after share split)	in euros	23.76
Expected volatility of the preferred share price	in %	26.6
Expected volatility of the index	in %	18.6
Expected forfeiture rate	in %	–
Risk-free interest rate	in %	3.96

The expected volatility rates are based on the historic volatility of the Henkel preferred share and of the Dow Jones Euro Stoxx (600) index. The period to which the estimate of the volatility of the Henkel share relates starts at the beginning of the remaining term of the option tranche and finishes on the date on which the tranche is valued.

The performance period relating to the fourth tranche ended on May 11, 2006, and that of the fifth tranche on May 15, 2007. Thereafter, at any time during a five-year period, the beneficiaries of the fourth tranche were able to exercise their right to acquire 15 Henkel preferred shares per option, and in the case of the fifth tranche 21 shares per option. The allocation for the fourth tranche was based exclusively on absolute performance. The allocation for the fifth tranche was 15 shares as a result of absolute performance and six shares as a result of relative performance. The option rights for the fourth tranche lapsed on May 11, 2011 as per the prescribed deadline. The outstanding option rights for tranche five may be exercised at any time, except during blocked periods which in each case cover the four weeks prior to the reporting dates of the corporation.

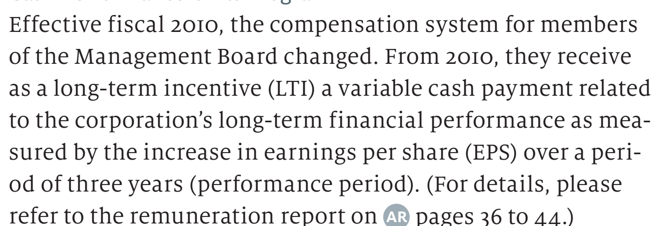
Global Cash Performance Units (CPU) Plan

Since the end of the Stock Incentive Plan, those eligible for that plan, the senior executive personnel of the Henkel Group (excluding members of the Management Board) have, since 2004, been part of the Global CPU Plan, which enables them to participate in any increase in price of the Henkel preferred share. Cash Performance Units (CPUs) are awarded on the basis of the level of achievement of certain defined targets. They grant the beneficiary the right to receive a cash payment at a fixed point in time. The CPUs are granted on condition that the member of the Plan is employed for three years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify to participate and that he or she is not under notice during that period. This minimum period of employment pertains to the calendar year in which the CPUs are granted and the two subsequent calendar years.

The number of CPUs granted depends not only on the seniority of the officer, but also on the achievement of set target figures. For the periods to date, these targets have been operating profit (EBIT) and net income attributable to shareholders of Henkel AG & Co. KGaA. The value of a CPU in each case is the average price of the Henkel preferred share as quoted 20 stock exchange trading days after the Annual General Meeting following the performance period. In the case of exceptional increases in the share price, there is an upper limit or cap. After the 1:3 share split of June 18, 2007, the number of CPUs was trebled.

The total value of CPUs granted to senior management personnel is remeasured at each year-end and treated as a payroll cost over the period in which the plan member provides their services to Henkel. The fifth tranche, which was issued in 2008, became due for payment in July 2011. Across the world, at December 31, 2011, the CPU Plan comprised 400,498 CPUs issued in the sixth tranche in 2009 (expense: 6.0 million euros), 551,718 CPUs from the seventh tranche issued in 2010 (expense: 8.2 million euros) and 456,754 CPUs from the eighth tranche issued in the reporting year (expense: 6.8 million euros). The corresponding provision amounted to 41.0 million euros (previous year: 32.5 million euros).

Cash Performance Units Program



Effective fiscal 2010, the compensation system for members of the Management Board changed. From 2010, they receive as a long-term incentive (LTI) a variable cash payment related to the corporation's long-term financial performance as measured by the increase in earnings per share (EPS) over a period of three years (performance period). (For details, please refer to the remuneration report on AR pages 36 to 44.)

In fiscal 2005 to 2009, the members of the Management Board received an LTI in the form of a cash payment based on preferred share performance. Each member of the Management Board was allocated, as a function of the absolute increase in the price of the Henkel preferred share and the increase in the earnings per Henkel preferred share (EPS) achieved over a period of three years (performance period), the cash equivalent of up to 10,800 preferred shares – so-called Cash Performance Units – per financial year (this being equivalent to a tranche). On expiry of the performance period, the number and the value of the Cash Performance Units (CPUs) due are determined and the resulting tranche income is paid in cash. Each member of the Management Board participating in a tranche was required to acquire a personal stake by investing in Henkel preferred shares to the value of 25 percent of the gross tranche payout, and to place these shares in a blocked custody account with a five-year drawing restriction.

In the event of an absolute rise in the share price during the performance period of at least 15 percent, 21 percent or 30 percent, each participant is allocated 1,800, 3,600 or 5,400 CPUs respectively. To calculate the increase in the share price, the average price in January of the year of issue of a tranche is compared with the average price in January of the third financial year following the year of issue (reference price). If, during the performance period, earnings per preferred share increase by at least 15 percent, 21 percent or 30 percent, each participant is allocated a further 1,800, 3,600 or 5,400 CPUs respectively. To calculate the increase in earnings per preferred share, the earnings per preferred share of the financial year prior to the year of issue is compared with the earnings per preferred share of the second financial year after the year of issue. The amounts included in the calculation of the increase are, in each case, the earnings per preferred share as disclosed in the certified and approved consolidated financial statements of the relevant financial years, adjusted for exceptional items.

The monetary value per CPU essentially corresponds to the reference price of the Henkel preferred share. A ceiling value (cap) is imposed in the event of extraordinary share price increases.

The base price for the 2009 tranche was 21.78 euros. We based the measurement of the provision for the year of tranche issue on the achievement of mid-range targets; in the subsequent years, the pro rata provisions for the still live tranches issued in the previous years were adjusted on the basis of the latest figures. This has resulted in the addition of a further expense of 0.5 million euros in the financial year. At December 31, 2011, the provision for the still live tranche from this Program, which was discontinued as of 2009, was 1.9 million euros (previous year: 3.4 million euros).

(33) Employee structure

Annual average amounts excluding apprentices and trainees, work experience students and interns, based on quarterly figures:

Number of employees per function

	2010	2011
Production and engineering	23,672	**23,568**
Marketing, selling and distribution	15,106	**14,941**
Research and development	2,665	**2,654**
Administration	6,698	**6,590**
Total	**48,141**	**47,753**

(34) Group segment report

The format for reporting the activities of the Henkel Group by segment is by business sector; selected regional information is also provided. This classification corresponds to the way in which the Group manages its operating business.

The activities of the Henkel Group are divided into the following operating segments: Laundry & Home Care, Cosmetics/Toiletries and Adhesive Technologies (Adhesives for Consumers, Craftsmen and Building, and Industrial Adhesives).

Laundry & Home Care

The Laundry & Home Care business sector is globally active in the laundry and home care branded consumer goods business. 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.

Cosmetics/Toiletries

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.

Adhesive Technologies (Adhesives for Consumers, Craftsmen and Building, and Industrial Adhesives)

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

In the Adhesives for Consumers, Craftsmen and Building segment, 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.

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.

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.

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.

In determining the segment results and the asset and liability values, essentially the same principles of recognition and measurement are applied as in the consolidated financial statements. Operating assets in foreign currencies have been valued at average exchange rates.

The Group measures the performance of its segments on the basis of a segment income variable referred to by Internal Control and Reporting as “adjusted EBIT.” For this purpose, operating profit (EBIT) is adjusted for one-time charges and gains and also restructuring charges.

For reconciliation with the figures for the Henkel Group, Group overheads are reported under Corporate together with income and expenses that cannot be allocated to the individual business sectors.

Proceeds transferred between the segments only exist to a negligible extent and are therefore not separately disclosed.

Operating assets, provisions and liabilities are assigned to the segments in accordance with their usage or origin. Where usage or origin is attributable to several segments, allocation is effected on the basis of appropriate ratios and keys.

For regional and geographic analysis purposes, sales are allocated to countries on the basis of the country-of-origin principle; non-current assets are allocated in accordance with the domicile of the international company to which they pertain.

Reconciliation between net operating assets/ capital employed and financial statement figures

in million euros	Net operating assets Annual average[1] 2010	Net operating assets December 31, 2010	Financial statement figures December 31, 2010	Net operating assets Annual average[1] 2011	Net operating assets December 31, 2011	Financial statement figures December 31, 2011
Goodwill at book value	6,512	6,521	6,521	6,361	6,713	**6,713**
Other intangible assets and property, plant and equipment (total)	4,500	4,335	4,335	4,192	4,319	**4,319**
Deferred taxes	–	–	358	–	–	**465**
Inventories	1,451	1,460	1,460	1,588	1,550	**1,550**
Trade accounts receivable from third parties	2,062	1,893	1,893	2,110	2,001	**2,001**
Intra-group accounts receivable	1,079	919	–	799	911	–
Other assets and tax refund claims[2]	425	388	1,412	374	431	**1,500**
Cash and cash equivalents	–	–	1,515			**1,980**
Assets held for sale	–	–	31			**51**
Operating assets (gross)/Total assets	**16,029**	**15,516**	**17,525**	**15,424**	**15,926**	**18,579**
– Operating liabilities	4,796	4,648	–	4,625	4,687	–
of which: Trade accounts payable to third parties	2,262	2,308	2,308	2,460	2,411	**2,411**
Intra-group accounts payable	1,079	919	–	799	911	–
Other provisions and other liabilities[2,3] (financial and non-financial)	1,455	1,421	1,644	1,366	1,365	**1,595**
Net operating assets	11,233	10,868	–	10,799	11,239	–
– Goodwill at book value	6,512	–	–	6,361	–	–
+ Goodwill at cost[4]	6,875	–	–	6,770	–	–
Capital employed	11,595	–	–	11,208	–	–

[1] The annual average is calculated on the basis of the twelve monthly figures.
[2] Only amounts relating to operating activities are taken into account in calculating net operating assets.
[3] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).
[4] Before deduction of accumulated amortization pursuant to IFRS 3.79 (b).

(35) Earnings per share

The Stock Incentive Plan (Note 32, AR pages 143 to 145) dilutes earnings per ordinary share and earnings per preferred share by 1 eurocent in each case.

Earnings per share

in million euros (rounded)	2010	2011
Net income attributable to shareholders of Henkel AG & Co. KGaA	**1,118**	**1,253**
Dividends, ordinary shares	182	203
Dividends, preferred shares	125	139
Total dividends	307	342
Retained earnings per ordinary share	486	545
Retained earnings per preferred share	325	366
Retained earnings	**811**	**911**
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.70	0.78[4]
of which preliminary dividend per ordinary share in euros[1]	*0.02*	*0.02*
Retained earnings per ordinary share in euros	1.87	2.10
EPS per ordinary share in euros	**2.57**	**2.88**
Number of outstanding preferred shares[2]	173,924,174	174,309,407
Dividend per preferred share in euros	0.72	0.80[4]
of which preferred dividend per preferred share in euros[1]	*0.04*	*0.04*
Retained earnings per preferred share in euros	1.87	2.10
EPS per preferred share in euros	**2.59**	**2.90**
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.70	0.78[4]
of which preliminary dividend per ordinary share in euros[1]	*0.02*	*0.02*
Retained earnings per ordinary share in euros after dilution	1.86	2.09
Diluted EPS per ordinary share in euros	**2.56**	**2.87[5]**
Number of potential outstanding preferred shares[3]	174,300,359	174,467,626
Dividend per preferred share in euros	0.72	0.80[4]
of which preferred dividend per preferred share in euros[1]	*0.04*	*0.04*
Retained earnings per preferred share in euros after dilution	1.86	2.09
Diluted EPS per preferred share in euros	**2.58**	**2.89[5]**

[1] See Group management report, Corporate governance, Division of capital stock, Shareholder rights.
[2] Weighted annual average of preferred shares (Henkel buy-back program).
[3] Weighted annual average of preferred shares adjusted for the potential number of shares arising from the Stock Incentive Plan.
[4] Proposal to shareholders for the Annual General Meeting on April 16, 2012.
[5] Based on income attributable to shareholders of Henkel AG & Co. KGaA of 1,251 million euros (IAS 33.59).

(36) Consolidated statement of cash flows

The statement of cash flows is prepared in accordance with IAS 7 "Statements of Cash Flows." It describes the flow of cash and cash equivalents by origin and usage of liquid funds. It distinguishes between changes in funds arising from operating activities, investing activities/acquisitions, and financing activities. Financial funds include cash on hand, checks and credits at banks, and other financial assets with a remaining term of not more than three months. Securities are therefore included in financial funds, provided that they are available at short term and are only exposed to an insignificant price change risk. As in the previous year, Henkel's financial funds match the cash and cash equivalents figure disclosed in the consolidated statement of financial position. Effects arising from currency translation are allowed for in the computation. In some countries, there are administrative hurdles to the transfer of money to the parent company.

Cash flows from operating activities are determined by initially adjusting operating profit by non-cash variables such as depreciation/amortization/write-ups on assets, supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. Payments made for income taxes are disclosed under operating cash flow.

Cash flows from investing activities/acquisitions occur essentially as a result of the flow of funds generated by disposals of non-current assets, subsidiary companies and business operations, and the outflow of funds arising from investments in non-current assets and acquisitions.

Cash flow from investing activities/acquisitions includes payments for acquisitions in the amount of 4 million euros (previous year: 46 million euros) and relate exclusively to the acquisition of the Purbond Group within the Adhesive Technologies business sector.

Cash flows from financing activities take into account interest and dividends paid and received, the change in borrowings and in pension provisions, and also payments made for the acquisition of non-controlling interests and other financing transactions. The change in borrowings takes into account a number of cash inflows and outflows, particularly arising from the assumption and amortization of current liabilities to banks.

Free cash flow shows how much cash is actually available for acquisitions and dividends and/or for reducing debt.

(37) Contingent liabilities

Analysis

in million euros	December 31, 2010	December 31, 2011
Liabilities under guarantee and warranty agreements	15	8

(38) Other unrecognized financial commitments

Operating leases as defined in IAS 17 comprise all forms of rights of use of assets, including rights of use arising from rent and leasehold agreements. Payment obligations under operating lease agreements are shown at the total amounts payable up to the earliest date when they can be terminated. The amounts shown are the nominal values. At December 31, 2011, they were due for payment as follows:

Operating lease commitments

in million euros	December 31, 2010	December 31, 2011
Due in the following year	58	59
Due within 1 to 5 years	127	118
Due after 5 years	36	35
Total	221	212

In the course of the 2011 financial year, 67 million euros became due for payment under operating leases (previous year: 67 million euros).

As of the end of 2011, commitments arising from orders for property, plant and equipment amounted to 52 million euros (previous year: 36 million euros). As in the previous year, there were no purchase commitments arising from toll manufacturing contracts.

Payment commitments under the terms of agreements for capital increases and share purchases contracted prior to December 31, 2011 amounted to 7 million euros (previous year: 5 million euros).

(39) Voting rights / Related party disclosures

Related parties as defined by IAS 24 ("Related Party Disclosures") are legal entities or natural persons who may be able to exert influence on Henkel AG & Co. KGaA and its subsidiaries, or be subject to the control or a material influence by Henkel AG & Co. KGaA or its subsidiaries. These include, in particular, the members of the Henkel share-pooling agreement, non-consolidated entities in which Henkel holds participating interest, and also the members of the management bodies of Henkel AG & Co. KGaA whose remunerations are indicated in the Remuneration Report section of the Management Report on AR pages 36 to 44. Henkel Trust e.V. and Metzler Trust e.V. also fall into the category of related parties as defined in IAS 24.

Information required by Section 160 (1) no. 8 of the German Stock Corporation Act [AktG]:

The company has been notified that the share of voting rights of the parties to the Henkel share-pooling agreement at October 21, 2010 represents in total 53.21 percent of the voting rights (138,240,804 votes) in Henkel AG & Co. KGaA, and is held by

- 111 members of the families of the descendants of Fritz Henkel, the company's founder,
- four foundations set up by members of those families,
- one civil-law partnership set up by members of those families, and
- eight private limited companies set up by members of those families, seven limited partnerships with a limited company as general partner (GmbH & Co. KG) and one limited partnership (KG)

under the terms of a share-pooling agreement (agreement restricting the transfer of shares) pursuant to Section 22 (2) of the German Securities Trading Act [WpHG], whereby the shares held by the eight private limited companies, the seven limited partnerships with a limited company as general partner and the one limited partnership representing a total of 14.02 percent (36,419,097 voting rights) are attributed (pursuant to Section 22 (1) no. 1 WpHG) to the family members who control those companies.

Dr. Christoph Henkel, London, has exceeded the 5 percent threshold of voting rights in Henkel AG & Co. KGaA with 14,172,457 voting ordinary shares in Henkel AG & Co. KGaA, representing a rounded percentage of 5.46 percent. Even after adding voting rights expressly granted under the terms of usufruct agreements, no other party to the share-pooling agreement has a notification obligation triggered by their reaching or exceeding the threshold of 3 percent or more of the total voting rights in Henkel AG & Co. KGaA.

The authorized representative of the parties to the Henkel share-pooling agreement is Dr. Simone Bagel-Trah, Düsseldorf.

Financial receivables from and payables to other investments in the form of non-consolidated entities are disclosed in Notes 3 and 18.

Henkel Trust e.V. and Metzler Trust e.V., as parties to relevant contractual trust arrangements (CTA), hold the assets required to cover the pension obligations in Germany. The claim on Henkel Trust e.V. for reimbursement of pension payments made is shown under other financial assets (Note 3 on AR page 116).

(40) Exercise of exemption options

The following German companies included in the consolidated financial statements of Henkel AG & Co. KGaA exercised exemption options in fiscal 2011:

- Elch GmbH, Leverkusen (Section 264 (3) German Commercial Code [HGB])
- Schwarzkopf Henkel Production Europe GmbH & Co. KG, Düsseldorf (Section 264b German Commercial Code [HGB]).

The Dutch company Henkel Nederland B.V., Nieuwegein, exercised the exemption option afforded in Article 2:403 of the Civil Code of the Netherlands.

(41) Remuneration of the corporate management

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,515,500 euros plus VAT (previous year: 1,516,000 euros) and 2,295,205 euros (previous year: 2,209,180 euros) respectively. The total remuneration (Section 285 no. 9 German Commercial Code [HGB]) of the Management Board and members of the Management Board of Henkel Management AG amounted to 21,992,191 euros (previous year: 18,297,602 euros). For further details regarding the emoluments of the corporate management, please refer to the remuneration report on AR pages 36 to 44.

(42) Declaration of compliance with the Corporate Governance Code (Kodex)

In February 2011, the Management Board of Henkel Management AG and the Supervisory Board and Shareholders' Committee of Henkel AG & Co. KGaA approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code (Kodex) in accordance with Section 161 of the German Stock Corporation Act [AktG]. The declaration has been made permanently available to shareholders on the company website: www.henkel.com/ir

(43) Subsidiaries and other investments

Details relating to the investments held by Henkel AG & Co. KGaA and the Henkel Group are provided in a separate schedule appended to these notes to the consolidated financial statements but not included in the printed form of the Annual Report. Said schedule is included in the accounting record submitted for publication in the Electronic Federal Gazette and can be viewed there and at the Annual General Meeting. The schedule is also included in the online version of the Annual Report on our website: www.henkel.com/ir

(44) Auditor's fees and services

The total fees charged to the Group for the services of the auditor KPMG AG Wirtschaftsprüfungsgesellschaft and the other KPMG companies in fiscal 2010 and 2011 were as follows:

Type of fee

in million euros	2010	of which Germany	2011	of which Germany
Audits	8.5	1.3	7.7	1.3
Other audit-related services	1.2	0.3	1.4	0.3
Tax advisory services	0.9	0.4	0.6	0.1
Other services	0.6	0.4	0.8	0.7
Total	11.2	2.4	10.5	2.4

The item "Audits" includes fees and disbursements in respect of the audit of the Group accounts and the legally prescribed financial statements of Henkel AG & Co. KGaA and its affiliated companies. The fees for audit-related services relate primarily to the quarterly reviews. The item "Tax advisory services" includes fees for advice and support on tax issues and the performance of tax compliance services on behalf of affiliated companies outside Germany. "Other services" comprise fees predominantly for project-related consultancy services.

Recommendation for the approval of the annual financial statements and the appropriation of the profit of Henkel AG & Co. KGaA

It is proposed that the annual financial statements of Henkel AG & Co. KGaA be approved as presented and that the unappropriated profit of 345,171,082.50 euros for the year ended December 31, 2011 be applied as follows:

a) Payment of a dividend of 0.78 euros per ordinary share (259,795,875 shares) = 202,640,782.50 euros
b) Payment of a dividend of 0.80 euros per preferred share (178,162,875 shares) = 142,530,300.00 euros

345,171,082.50 euros

According to Section 71 German Stock Corporation Act [AktG], treasury shares do not qualify for a dividend. The amount in unappropriated profit which relates to the shares held by the corporation (treasury stock) at the date of the Annual General Meeting will be carried forward as retained earnings. As the Annual General Meeting can change the number of such treasury shares, a correspondingly adapted proposal for the appropriation of profit will be submitted to it, providing for an unchanged payout of 0.78 euros per ordinary share qualifying for a dividend and 0.80 euros per preferred share qualifying for a dividend, with corresponding adjustment of the other retained earnings and retained earnings carried forward to the following year.

Düsseldorf, January 27, 2012

Henkel Management AG
(Personally Liable Partner
of Henkel AG & Co. KGaA)

Management Board

Annual financial statements of Henkel AG & Co. KGaA (summarized) *

Statement of income

in million euros	2010	2011
Sales	3,272	3,424
Cost of sales	–2,262	–2,426
Gross profit	1,010	998
Selling, research and administrative expenses	–1,283	–1,331
Other income (net of other expenses)	458	442
Operating profit	185	109
Financial result	874	–6
Profit on ordinary activities	1,059	103
Change in special accounts with reserve element	14	11
Extraordinary result	37	–
Earnings before tax	1,110	114
Taxes on income	–141	–82
Net income	969	32
Profit brought forward	377	304
Allocated to other retained earnings / transferred from other retained earnings	–484	9
Unappropriated profit [1]	862	345

[1] Statement of income figures are rounded; unappropriated profit 2010: 861,527,712.35 euros; unappropriated profit 2011: 345,171,082.50 euros.

Balance sheet

in million euros	2010	2011
Intangible assets and property, plant and equipment	671	660
Financial assets	7,017	7,185
Non-current assets	7,688	7,845
Inventories	224	233
Receivables and miscellaneous assets / Deferred charges	1,994	1,591
Marketable securities	250	309
Liquid funds	1,117	1,389
Current assets	3,585	3,522
Assets arising from the overfunding of pension obligations	115	2
Total assets	11,388	11,369
Equity	5,468	5,204
Special accounts with reserve element	151	139
Provisions	654	762
Liabilities, deferred income and accrued expenses	5,115	5,264
Total equity and liabilities	11,388	11,369

* The full financial statements of Henkel AG & Co. KGaA with the auditor's unqualified opinion are filed with the commercial register and are also available at www.henkel.com/ir. Copies can be obtained from Henkel AG & Co. KGaA on request.

Independent Auditor's Report

We have issued the following unqualified auditor's report:
"Independent Auditor's Report
To Henkel AG & Co. KGaA, Düsseldorf

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Henkel AG & Co. KGaA, Düsseldorf, and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year then ended, and the notes to the consolidated financial statements.

Responsibility of the Personally Liable Partner of the Company for the Consolidated Financial Statements
The personally liable partner of Henkel AG & Co. KGaA is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code, to give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The personally liable partner of the company is also responsible for the internal controls that it determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) as well as in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we comply with professional requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor's professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the system of internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's system of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the personally liable partner of the company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion
Pursuant to Section 322 (3) 1 German Commercial Code, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code and give a true and fair view of the net assets and financial position of the Henkel Group as at December 31, 2011, as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Group Management Report
We have audited the accompanying Group management report of Henkel AG & Co. KGaA. The personally liable partner of Henkel AG & Co. KGaA is responsible for the preparation of the Group management report in compliance with the applicable requirements of German law pursuant to Section 315a (1) German Commercial Code. We conducted our audit in accordance with Section 317 (2) German Commercial Code and German generally accepted standards for the audit of the Group management report promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit of the Group management report to obtain reasonable assurance about whether the Group management report is consistent with the consolidated financial statements and with the findings of our audit, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) 1 German Commercial Code, we state that our audit of the Group management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and of the Group management report, the Group management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Düsseldorf, January 27, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai C. Andrejewski
Wirtschaftsprüfer
(German Public Auditor)

Michael Gewehr
Wirtschaftsprüfer
(German Public Auditor)"

Responsibility statement by the Personally Liable Partner

To the best of our knowledge, and in accordance with the applicable accounting principles for financial reporting, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the management report of the Group includes a fair review of the development, performance and results of the business and the position of the Group, together with a cogent description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, January 27, 2012

Henkel Management AG
Management Board
Kasper Rorsted,
Jan-Dirk Auris, Kathrin Menges, Bruno Piacenza,
Dr. Lothar Steinebach, Hans Van Bylen