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.

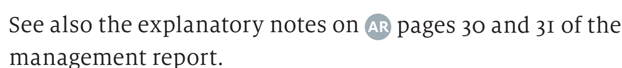
According to Art. 6 (5) of the Articles of Association, the Personally Liable Partner is authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital of the corporation in one or more installments at any time until April 18, 2015, up to a total 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	December 31, 2010 Current	December 31, 2010 Total	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 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

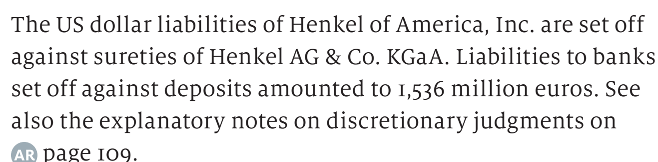
Issuer	Type	Nominal	Carrying amounts excluding accrued interest		Market values excluding accrued interest[1]		Market values including accrued interest[1]		Interest rate[2]		Interest fixing
in million euros			2010	2011	2010	2011	2010	2011	2010	2011	
Henkel AG & Co. KGaA	Bond	1,000	1,049	**1,030**	1,057	**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

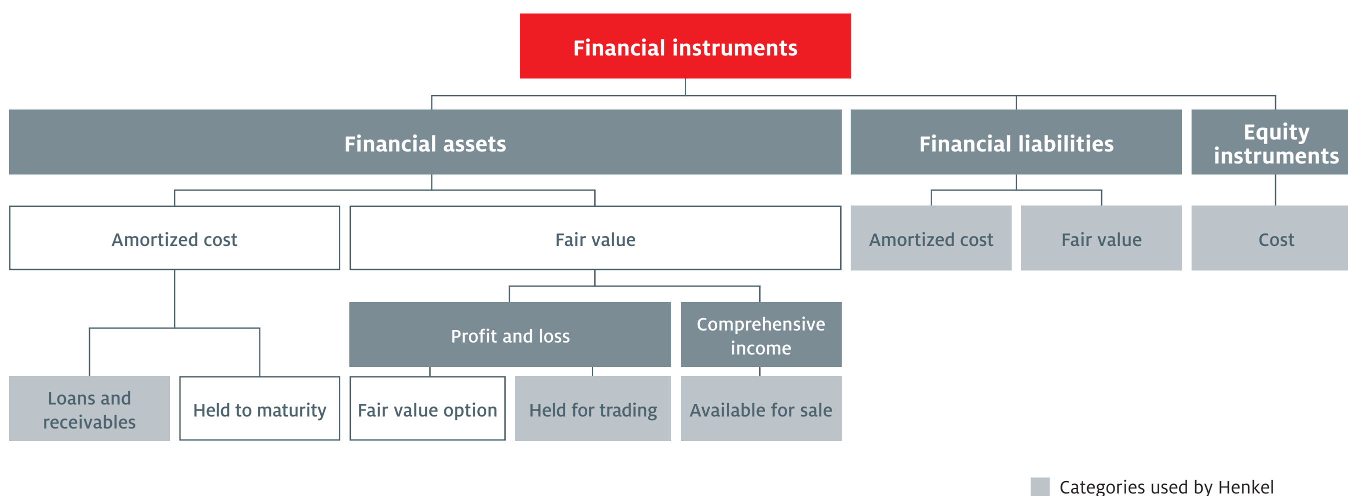
[1] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).

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

		Remaining term			
in million euros	December 31, 2010 Carrying amount	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	Between 1 and 5 years	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

in million euros	Carrying amounts 2010	Carrying amounts 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.