Notes to the consolidated statement of income

(22) Sale proceeds and principles of income realization

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

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

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

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

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

(23) Cost of sales

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

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

(24) Marketing, selling and distribution expenses

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

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

(25) Research and development expenses

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

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

(26) Administrative expenses

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

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

(27) Other operating income

Other operating income

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

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

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

(28) Other operating charges

Other operating charges

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

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

(29) Financial result

Financial result

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

Investment result

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

Interest result

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

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

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

(30) Taxes on income

Earnings before taxes on income and analysis of taxes

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

Main components of tax expense and income

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

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

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

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

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

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

Allocation of deferred taxes

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

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

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

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

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

Expiry dates of unused tax losses and tax credits

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

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

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

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

Tax reconciliation statement

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

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

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

(31) Non-controlling interests

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

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