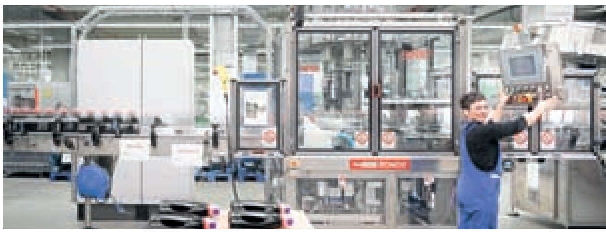






Annual Report 2011




Excellence is our Passion

How we performed in 2011

Highlights

15,605 million euros
sales

13.0 %
adjusted[1] return on sales (EBIT): up 0.7 percentage points

3.14 euros
adjusted[1] earnings per preferred share (EPS): up 11.3 percent

0.80 euros
dividend per preferred share[2]

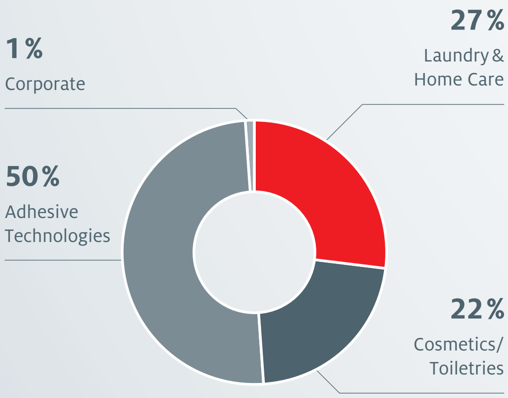
Key financials

in million euros	2010	2011	+/–
Sales	15,092	15,605	3.4 %
Operating profit (EBIT)	1,723	1,857	7.8 %
Adjusted[1] operating profit (EBIT)	1,862	2,029	9.0 %
Return on sales (EBIT) in %	11.4	11.9	0.5 pp
Adjusted[1] return on sales (EBIT) in %	12.3	13.0	0.7 pp
Net income	1,143	1,283	12.2 %
– attributable to non-controlling interests	25	30	20.0 %
– attributable to shareholders of Henkel AG & Co. KGaA	1,118	1,253	12.1 %
Earnings per preferred share in euros	2.59	2.90	12.0 %
Adjusted[1] earnings per preferred share in euros	2.82	3.14	11.3 %
Return on capital employed (ROCE) in %	14.9	16.6	1.7 pp
Capital expenditures on property, plant and equipment	240	384	60.0 %
Research and development expenses	391	410	4.9 %
Number of employees (December 31)	47,854	47,265	–1.2 %
Dividend per ordinary share in euros	0.70	0.78[2]	11.4 %
Dividend per preferred share in euros	0.72	0.80[2]	11.1 %

[1] Adjusted for one-time charges/gains and restructuring charges.
[2] Proposal to shareholders for the Annual General Meeting on April 16, 2012.

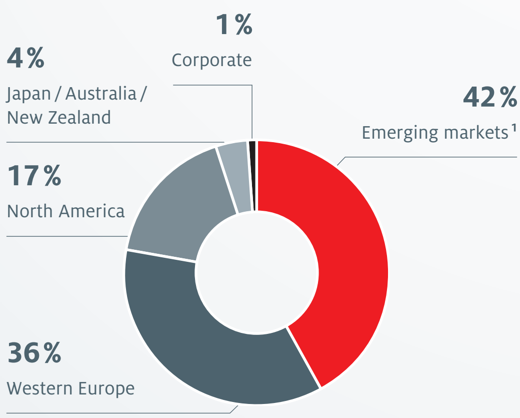
pp = percentage points

Sales by business sector



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

Sales by region



[1] Eastern Europe, Africa/Middle East, Latin America, Asia (excluding Japan).

Laundry & Home Care

Top brands: Persil, Purex, Dixan

Leading market positions worldwide.

Achieving profitable growth through appealing innovations under strong brands, aligned to exacting customer demands.

Expanding our strong market position in Europe and extending our presence in North America – selectively – in the emerging markets.

Key financials

in million euros	2010	2011	+/–
Sales	4,319	4,304	–0.3 %
Operating profit (EBIT)	542	511	–5.8 %
Adjusted[1] operating profit (EBIT)	562	570	1.4 %
Return on sales (EBIT)	12.6 %	11.9 %	–0.7 pp
Adjusted[1] return on sales (EBIT)	13.0 %	13.2 %	0.2 pp

pp = percentage points
[1] Adjusted for one-time charges/gains and restructuring charges.

+2.9 %
organic sales growth

Sales
in million euros

Cosmetics / Toiletries

Top brands: Schwarzkopf, Dial, syoss

Leading market positions worldwide.

Achieving profitable growth through appealing innovations under strong brands, aligned to exacting customer demands.

Expanding our strong market position in Europe and extending our presence in North America and – selectively – in the emerging markets.

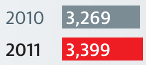
Key financials

in million euros	2010	2011	+/–
Sales	3,269	3,399	4.0 %
Operating profit (EBIT)	411	471	14.6 %
Adjusted[1] operating profit (EBIT)	436	482	10.5 %
Return on sales (EBIT)	12.6 %	13.8 %	1.2 pp
Adjusted[1] return on sales (EBIT)	13.3 %	14.2 %	0.9 pp

pp = percentage points
[1] Adjusted for one-time charges/gains and restructuring charges.

+5.4 %
organic sales growth

Sales
in million euros



Adhesive Technologies

Top brands: Loctite, Teroson, technomelt

Leading our markets worldwide.

Achieving profitable growth through innovations under strong brands, efficient processes and a firm focus on our customers.

Developing new applications and growth potential in all regions of the world.

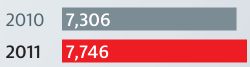
Key financials

in million euros	2010	2011	+/–
Sales	7,306	7,746	6.0 %
Operating profit (EBIT)	878	1,002	14.1 %
Adjusted[1] operating profit (EBIT)	938	1,075	14.7 %
Return on sales (EBIT)	12.0 %	12.9 %	0.9 pp
Adjusted[1] return on sales (EBIT)	12.8 %	13.9 %	1.1 pp

pp = percentage points
[1] Adjusted for one time charges/gains and restructuring charges.

+8.3 %
organic sales growth

Sales
in million euros



Contents

Our Vision

A global leader in brands and technologies.

Our Values

We put our **customers** at the center of what we do.

We value, challenge and reward our **people**.

We drive excellent sustainable **financial** performance.

We are committed to leadership in **sustainability**.

We build our future on our **family** business foundation.

Our commitment

"Excellence is our Passion" is a commitment that unites all of us who work at Henkel. It represents a performance challenge to ourselves and a performance promise to our customers – day by day, around the world.

Learn more about how more than 47,000 Henkel employees around the globe live up to this commitment in the section starting on page 14.

Further information
You will notice a number of cross-references within this Annual Report. We also indicate the availability of supplementary information relating to specific subject areas in our Sustainability Report and on the internet.

AR Annual Report

SR Sustainability Report

Internet

Kasper Rorsted
Chairman of the Management Board

Dear Friends of the Company,

+5.9 %
organic sales growth.

13.0 %
adjusted[1] return on sales.

+11.3 %
adjusted[1] earnings per preferred share.

2011 was a successful year for Henkel – despite major challenges and uncertainties within the economic environment. We made considerable progress in further developing our company, based on our vision, aligned with our values and driven by three strategic priorities: achieve our full business potential, focus more on our customers, and strengthen our global team.

Excellent results in a challenging environment

The progress made in the implementation of our strategic priorities is reflected in our key financials. In a persistently challenging environment marked by intense competition, we achieved organic sales growth of 5.9 percent, significantly outperforming global GDP growth of 2.6 percent. Henkel Group revenues rose to 15,605 million euros. Adjusted [1] return on sales rose to 13.0 percent compared to 12.3 percent in the previous year, while adjusted earnings per preferred share increased by 11.3 percent to 3.14 euros. All our business sectors contributed to this successful performance with profitable growth and further expansion of their market shares.

We will be proposing to the Annual General Meeting approval of a dividend payout of 0.80 euros per preferred share, an increase of 11.1 percent compared to the 0.72 euros in the previous year, in line with our established dividend payout policy.

The excellent business performance and solid finances of Henkel were recognized in the financial markets. In the course of 2011, both Standard & Poor's and Moody's increased Henkel's credit rating to our target level, highlighting in particular our strong cash flow and our disciplined reduction of net debt – down to a level below 2 billion euros – since the acquisition of the National Starch businesses.

We fully delivered on our ambitious targets in 2011. Sales, profits and market shares in nearly all our business segments reached new highs. Based on this solid foundation and strong performance, we are very confident of achieving our 2012 targets set in 2008.

On behalf of the Management Board, I would like to extend my sincere thanks to all our employees for their outstanding contributions in this difficult economic environment. Their commitment and their ambition to be the best in everything they do provide the foundation for Henkel's success, as has consistently been the case during the last 135 years.

We are well aware of our responsibility toward our employees. Following the tsunami and the subsequent reactor incident in Japan, and also during the flood disaster in Thailand and the political unrest in the Middle East and North Africa, we made great efforts to ensure the safety and welfare of our employees and their families, providing a broad range of supportive measures.

Excellence is our Passion

Since the beginning of 2011, our commitment to be the best in everything we do has been reflected in our new claim, "Excellence is our Passion." We regard this as a performance challenge to ourselves and a performance promise to our customers. In this report we introduce selected examples of how more than 47,000 Henkel employees live up to this commitment – day by day, around the world.

Growth through globalization

Our vision, "a global leader in brands and technologies," is reflected in our business strategy. A major success factor in our performance in 2011 was the further expansion of our position in the emerging markets, where we generate 42 percent of our sales and employ 54 percent of our people. It is a key element of our long-term strategy to continuously strengthen our position in these markets characterized by above-average growth. For example, in 2011 we began construction of our largest adhesives plant in Shanghai. Over recent years, Henkel has been benefiting from the increasing globalization of our businesses. This shift generates new growth momentum and enables us to better market our technologies to industrial customers on a global scale while growing our strong brands in local markets.

42 %
of our sales generated in the emerging markets.

Focus on strong brands

We further strengthened our top brands in 2011 and now generate 42 percent of total sales with our top 10 brands. Thanks to above-average margins, these brands contribute significantly to our profitable growth. Our top 10 brands in the Cosmetics/Toiletries business sector generate 90 percent of its sales, in Laundry & Home Care the figure is 81 percent and in the Adhesive Technologies business sector the share is 54 percent. In our industrial adhesives business we will be further focusing our portfolio on established, global brands.

42 %
of our sales generated by our top 10 brands.

[1] Adjusted for one-time charges/gains and restructuring charges.

Continuous change to drive success

2011 provided a number of striking examples of how important flexibility and adaptability to changing business conditions can be. The unrest in North Africa and the Middle East, the natural disaster in Japan and the financial crises in Europe and the USA were still unforeseeable at the beginning of the year. These events had considerable impact on the economic landscape. In addition, significant raw material price increases and volatility in a market environment characterized by tough competition affected all our businesses. Against this background, it was vital to continue making Henkel more flexible, faster and more efficient.

Our response included expansion of our shared services, further simplifying, standardizing and automating our processes. Having successfully introduced the shared services model for corporate functions such as Finance, Purchasing and Human Resources, we are now extending it to business unit processes as well. In addition to our existing shared service centers in Bratislava (Slovakia) and Manila (Philippines), in 2011 we opened a third center in Mexico City serving the Latin America region. By the end of 2011, we had about 1,000 employees in our shared services organization, and we are planning to further increase this number in the coming years.

Diversity – an asset for a global company

We are convinced that the commitment and diversity of our employees are critical success drivers for Henkel. For both our consumer goods and our industrial businesses, the variety of backgrounds, knowledge and expertise of our diverse employee base makes the difference in a competitive environment. In promoting diversity at Henkel, we focus on three dimensions: gender, internationality, and age combined with professional experience. Henkel employs people from more than 120 countries and there are 26 nations represented among our top 180 managers.

Around **30 %** of our managers are women.

> "In 2011, we established a strong platform for Henkel's future."

In 2011, the focus in Germany and other countries was on the topic of women in management. At Henkel, we have been able to raise the proportion of female managers by one percentage point as an annual average over the last six years. The figure currently stands at approximately 30 percent, putting Henkel among the leading corporations listed in the DAX. Going forward, we are committed to steadily raising this ratio by one to two percentage points per year.

As part of our effort to strengthen our global team, we expanded our worldwide career and development activities in 2011. We now evaluate and differentiate the performance levels and development potential of our 9,000 managers and leaders around the world using a standard process. From the results, we derive their long-term career and development requirements.

At Henkel, we prefer to promote talent from within, but without compromising on quality. I am particularly pleased that, in the course of 2011, we promoted three senior managers with long-standing experience within Henkel to our Management Board. And, as already announced, in July of 2012 we will be appointing a new Chief Financial Officer from our ranks. This ensures a high degree of continuity and competence within the company.

Leadership in sustainability

"We are committed to leadership in sustainability" is one of our five company values. Henkel holds a top international position in this field. For the fifth consecutive year, we were acknowledged as the global leader in our industry by the Dow Jones Sustainability Index; and we are also at the top of other recognized, independent rankings.

We intend to maintain and further extend this leading position in the future, not least because our customers in the industrial business and also retail partners and consumers are placing increasing emphasis on sustainable products and processes.

Well ahead of schedule, by the end of 2010 we achieved our sustainability targets originally formulated for 2012. Consequently, in 2011 we developed a new, long-term sustainability strategy for Henkel, incorporating the insights from external, international experts. At the heart of this strategy lies the ambition to achieve more with less. We aim to triple our resource efficiency by the year 2030. As an interim objective, we want to improve our efficiency by 30 percent by the end of 2015. Our Annual Report details a number of important contributions that have been made in the implementation of this strategy. Detailed information relating to this strategy, our specific targets and our progress can be found in our Sustainability Report and on the internet.

2012 outlook and long-term strategic alignment

We are very confident of meeting our targets for fiscal 2012: We aim to achieve organic sales growth of 3 to 5 percent. For our consumer goods businesses we expect growth in the low single-digit percentage range, and for our Adhesive Technologies business, we are targeting sales growth in the mid single-digit percentage range. Building on our strong 2011 results, we intend to increase adjusted return on sales (EBIT) to 14 percent for the Henkel Group, coupled with a rise in adjusted earnings per preferred share (EPS) of at least 10 percent.

In 2011, we were able to achieve significant milestones in our development, making progress in many key areas and establishing a strong platform for the future. In the course of the year, the Management Board analyzed major trends which will be affecting Henkel in the future, as well as various scenarios for the potential development of our business environment. These analyses will inform the strategic direction and focus of our company in the future, as will be communicated at the end of this year.

In addition to our appreciation of our employees, I would like on behalf of the entire Management Board to extend our special thanks to our supervisory bodies. And in the name of the entire company I thank you, our shareholders, for your continued trust and support. We also thank our customers throughout the world for the confidence they have shown in Henkel, in our brands and in our technologies.

Düsseldorf, January 27, 2012

Sincerely,

Kasper Rorsted
Chairman of the Management Board

Dr. Simone Bagel-Trah
Chairwoman of the Shareholders' Committee and the Supervisory Board, pictured here in Henkel's "Forscherwelt", a research center created especially for children.

Dear Shareholders and Friends of the Company,

2011 was again a successful year for Henkel. We were able to significantly increase both sales and profits in all our business units while further strengthening our position in many markets. This was an excellent achievement, particularly in view of the difficult business environment. The natural disasters in Japan and Thailand, and political unrest in the Middle East and North Africa coincided with major challenges and uncertainties in our markets arising from the debt crisis. We also had to deal with significantly rising raw material prices and persistently intense competition. Despite these challenges, our company performed very well in fiscal 2011.

On behalf of the Supervisory Board, I thank all employees for their hard work and commitment. Without their contribution this outcome would not have been possible. I would also like to thank the members of the Management Board for their successful and effective leadership of the company through this difficult period, and the employee representatives and Works Councils for their constructive support in Henkel's development. In particular, I would like to extend our gratitude to you, our shareholders, for the confidence you continue to show in our company, its management, its employees, and its products and services.

Ongoing dialogue with the Management Board

Again in fiscal 2011, we as the Supervisory Board diligently discharged our duties in accordance with the legal statutes, Articles of Association and rules of procedure governing our actions. We carefully and regularly monitored the work of the Management Board, advising and supporting it in its stewardship, in the strategic further development of the company and in decisions relating to matters of major importance.

Cooperation between the Management Board and the Supervisory Board takes place through extensive dialogue based on mutual trust and confidence. Throughout fiscal 2011, the Management Board kept us fully informed of all major issues affecting the company and its Group companies with prompt, detailed written and oral reports. Specifically, the Management Board provided explanations of the business situation, operational development, business policy, profitability issues, and our short-term and long-term corporate, financial and personnel planning, as well as capital expenditures and organizational measures. In the course of preparing the quarterly reports, moreover, details were given of the sales and profits of the Henkel Group as a whole, with further analysis by business sector and region.

Outside Supervisory Board meetings, I as Chairwoman remained in regular contact with the Chairman of the Management Board; this ensured that the Supervisory Board was constantly kept informed of current business developments and major occurrences.

The Supervisory Board and the Audit Committee each held four regular meetings in 2011. Attendance of the Supervisory Board meetings during the year averaged 94 percent. No member of the Supervisory Board participated in fewer than half the meetings. All Audit Committee meetings were fully attended apart from one.

There were no conflicts of interest involving Management Board or Supervisory Board members which had to be disclosed to the Supervisory Board and reported to the Annual General Meeting.

Major issues discussed at Supervisory Board meetings

In all our meetings, we discussed the reports provided by the Management Board, consulting with its members on the development of the corporation and strategic issues. We also discussed the overall economic situation and Henkel's business development.

The main items on the agenda for our meeting of February 22, 2011 were approval of the annual and consolidated financial statements for 2010, including the risk report and the corporate governance report, the 2011 Declaration of Compliance, and our proposed resolutions for the Annual General Meeting, relevant details of which were published in our last Annual Report. During the same meeting, we further dealt with specifics relating to Henkel's market appearance and questions pertaining to the presentation of Henkel as an attractive employer.

At our meeting of April 11, 2011, which was held straight after the Annual General Meeting, the main topics discussed – aside from the general performance of the individual business sectors – centered on current developments in Japan, Egypt and Tunisia. We also consulted on the effects of the increases in raw material prices, discussed in detail the importance of the North American market for Henkel's branded consumer goods business and our development in general, and issues relating to the implementation of our new vision and values.

In addition to operational developments in the first eight months of the financial year, our meeting held on September 27, 2011 also focused on strategic issues. We consulted on the further development of our sustainability strategy, formulated under the heading "Achieving more with less." We considered the status and structure of our shared service centers, and also the efficiency improvements accompanying the further standardization of our processes and the associated transfer of duties and responsibilities. We likewise consulted on the future strategic direction of Henkel and on our information technology strategy and its alignment to our future requirements.

At our meeting of December 13, 2011, we extensively discussed – on the basis of comprehensive documentation – our assets and financial planning, including our statement of income and the detailed budgets of our business sectors.

In our meetings, we also discussed compliance issues, focusing particularly on antitrust infringements and the related decisions both of the EU Commission dated April 13, 2011, and of the French antitrust authority dated December 8, 2011.

Supervisory Board committees

In order to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we assign certain activities to two separate committees: an Audit Committee and a Nominations Committee. For more details on the responsibilities and composition of these committees, please refer to the corporate governance section and the membership lists on AR pages 32 and 33, and page 157 respectively.

Committee activities

The Audit Committee met four times in the year under review. The meetings and resolutions were prepared through the provision of reports and other information by the Management Board. The Chair of the Committee reported promptly and in full to the plenary Supervisory Board on the content and results of each of the Committee meetings.

The focus at all the Audit Committee meetings was on the company and consolidated Group accounts, including the interim financial reports, with all matters being duly discussed with the Management Board. The three meetings at which we discussed and approved the interim financial reports were attended by the auditor. The latter reported on the results of the respective reviews and on all the main issues and occurrences relevant to the work of the Audit Committee. There were no objections raised in response to these reports.

The Audit Committee also scrutinized the accounting process and the efficacy and further development of the internal Group-wide control and risk management system. The Committee received the status reports of the Chief Compliance Officer and the Head of Internal Audit, and approved the audit plan put forward by Internal Audit, which extends to examining the functional efficiency and efficacy of the Internal Control System and our compliance organization.

The Audit Committee mandated the external auditor, pursuant to the latter's appointment by the 2011 Annual General Meeting, to audit the annual financial statements and the consolidated financial statements for fiscal 2011, and also to review the interim financial reports for fiscal 2011. The audit fee was also established. The Audit Committee obtained the necessary validation of auditor independence for the performance of these tasks. The auditor has informed the Audit Committee that there are no circumstances that might give rise to a conflict of interest in the execution of its duties.

At its meeting of March 5, 2012, attended by the auditor, the Audit Committee discussed the annual and consolidated financial statements for fiscal 2011, including the audit reports, the associated proposal for the appropriation of profits, and the risk report, and submitted to the Supervisory Board corresponding proposals for resolution by the Annual General Meeting. The Committee further made its recommendation to the Supervisory Board regarding the latter's proposal for resolution to be presented before the Annual General Meeting relating to the appointment of the external auditor for fiscal 2012.

A declaration from the auditor asserting its independence was again duly received, accompanied by details pertaining to non-audit services rendered in fiscal 2011 and those envisaged for fiscal 2012. There was no evidence of any bias or partiality on the part of the auditor. Other members of the Supervisory Board also took part as guests in this specifically audit-related meeting of the Audit Committee.

"We look forward with confidence to the further development of our company."

On the basis of the objectives agreed within the Supervisory Board with respect to its future composition, the members of the Nominations Committee made appropriate recommendations in preparation for the resolutions to be formulated by the Supervisory Board and placed before the 2012 Annual General Meeting with respect to the upcoming election of shareholder-representative members.

Efficiency audit

The Supervisory Board and the Audit Committee regularly examine the efficiency with which they perform their duties. This is done through discussion in the Supervisory Board plenary meetings and within the Audit Committee, based on a comprehensive, company-specific checklist. This deals with relevant major aspects such as preparation and conduct of meetings, scope and content of documentation and information (particularly with respect to financial reporting and auditing tasks), performance management and cost control, and risk management. Questions relating to corporate governance and possible improvements are also dealt with.

The results of these self-assessment audits were discussed in detail at the meeting of the Audit Committee on March 5, 2012, and that of the Supervisory Board on March 6, 2012. The efficiency of the Audit Committee and the Supervisory Board, and also the requisite independence of their members, were duly confirmed.

Corporate governance and declaration of compliance

Again in 2011, we consulted on issues relating to corporate governance, details of which are available in the corporate governance report on AR pages 29 to 36, with which we fully acquiesce.

At the meeting of March 6, 2012, we discussed and approved the joint Declaration of Compliance of the Management Board, the Shareholders' Committee and the Supervisory Board with respect to the German Corporate Governance Code (Kodex) for 2012. The full wording of the current and previous declarations of compliance can be found on the company website.

Annual and consolidated financial statements / Audit

The annual financial statements of Henkel AG & Co. KGaA and the management report have been prepared by the Management Board in accordance with the provisions of the German Commercial Code [HGB]. The consolidated financial statements and the Group management report have been prepared by the Management Board in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, and in accordance with the supplementary German statutory provisions pursuant to Section 315a (1) HGB. The consolidated financial statements in their present form exempt us from the requirement to prepare consolidated financial statements in accordance with German law.

The auditor appointed for 2011 by the last Annual General Meeting – KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG) – has examined the 2011 annual financial statements of Henkel AG & Co. KGaA and the 2011 consolidated financial statements, including the management reports. The annual financial statements and the consolidated financial statements have been issued with an unqualified opinion.

KPMG reports that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Henkel AG & Co. KGaA in accordance with German generally accepted accounting principles, and that the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group in compliance with International Financial Reporting Standards and the supplementary German statutes pursuant to Section 315a (1) HGB.

The annual financial statements and management report, consolidated financial statements and Group management report, the audit reports of KPMG and the recommendations by the Management Board for the appropriation of the profit made by Henkel AG & Co. KGaA were duly laid before all members of the Supervisory Board. We examined these documents and discussed them at our meeting of March 6, 2012. This was attended by the auditor, which reported on its main audit findings. We received the audit reports and voiced our acquiescence therewith. The Chair of the Audit Committee provided the plenary session of the Supervisory Board with a detailed account of the treatment of the annual and the consolidated financial statements by the Audit Committee. Having received the final results of the review conducted by the Audit Committee and concluded our own examination, we see no reason for objection to the aforementioned documents. The assessment by the Management Board of the position of the company and the Group coincides with our own appraisal. At our meeting of March 6, 2012, we concurred with the recommendations of the Audit Committee and therefore approved the annual financial statements, the consolidated financial statements and the management reports as prepared by the Management Board.

We also discussed and approved the proposal by the Management Board to pay out of the unappropriated profit of Henkel AG & Co. KGaA a dividend of 0.78 euros per ordinary share and of 0.80 euros per preferred share, and to carry the amount attributable to the treasury shares held by the company at the time of the Annual General Meeting forward to the following year. This proposal takes into account the financial and earnings position of the corporation, its medium-term financial and investment planning, and the interests of our shareholders. We consider the proposed dividends to be reasonable and appropriate. Also at this meeting, we ratified our proposal for resolution to be presented before the Annual General Meeting relating to the appointment of the external auditor for the next financial year, based on the recommendations of the Audit Committee.

Risk management

Risk management issues were examined not only by the Audit Committee but also the plenary Supervisory Board. The emphasis was on the risk management system in place at Henkel and any major individual risks of which we needed to be notified. There were no identifiable risks that might jeopardize the continued existence of the corporation as a going concern. The structure and function of the risk management system were also integral to the audit performed by KPMG, which found no cause for reservation. It is our considered opinion that the risk management system corresponds to the statutory requirements and is fit for the purpose of early identification of developments that could endanger the continuation of the corporation as a going concern.

Changes in the Supervisory Board and Management Board

Mr. Ulf Wentzien, Senior Staff Representative on the Supervisory Board, resigned his seat as of December 31, 2011, and we would like to extend to him our sincere thanks for his service and contribution. Dr. Martina Seiler was appointed by the District Court to take his place.

The Management Board underwent a number of changes in the course of the year, some of which were already reported last year. Effective January 1, 2011, Mr. Jan-Dirk Auris joined the Management Board as Executive Vice President for Adhesive Technologies. Mr. Bruno Piacenza assumed responsibility for the Laundry & Home Care business sector on March 1, 2011. He takes over from Dr. Friedrich Stara who has retired and to whom we extend our sincere thanks for his many years of successful service. On October 1, 2011, Mrs. Kathrin Menges was appointed to the Management Board as a new member and Executive Vice President Human Resources, and we wish her every success in this role. After more than thirty years with Henkel, Dr. Lothar Steinebach will be retiring at the end of June 2012; his successor will be Mr. Carsten Knobel, due to take up his new duties as of July 2012. We are particularly pleased that we have been able to fill all these positions on the Management Board by promoting senior managers with long-standing experience within Henkel.

As in the previous year, fiscal 2012 is expected to bring major challenges for our company, its employees and its management. Many of the issues and changes that characterized 2011 will remain with us in 2012. Building on the significant progress that our company has made in recent years, we are convinced that Henkel is in excellent shape and we look forward with confidence to the further development of our company.

We thank you for your ongoing trust and support.

Düsseldorf, March 6, 2012

On behalf of the Supervisory Board

Simone Bagel-Trah

Dr. Simone Bagel-Trah
(Chairwoman)

Our Management Board

Dr. Lothar Steinebach
Executive Vice President
Finance (CFO) / Purchasing /
IT / Legal

Born in Wiesbaden,
Germany,
on January 25, 1948;
with Henkel since 1980.

Kathrin Menges
Executive Vice President
Human Resources

Born in Pritzwalk,
Germany,
on October 16, 1964;
with Henkel since 1999.

Kasper Rorsted
Chairman of the
Management Board

Born in Aarhus,
Denmark,
on February 24, 1962;
with Henkel since 2005.

Jan-Dirk Auris
Executive Vice President
Adhesive Technologies

Born in Cologne,
Germany,
on February 1, 1968;
with Henkel since 1984.

Bruno Piacenza
Executive Vice President
Laundry & Home Care

Born in Paris,
France,
on December 22, 1965;
with Henkel since 1990.

Hans Van Bylen
Executive Vice President
Cosmetics/Toiletries

Born in Berchem,
Belgium,
on April 26, 1961;
with Henkel since 1984.

Innovative brands – successful in local markets

In highly competitive markets, new products only succeed when they combine innovation with a deep understanding of the regionally varied expectations and requirements of our customers and consumers. The example of Persil Black, successful in both the Arab region and in European markets, proves that Henkel knows how to get the combination right.

DÜSSELDORF
GERMANY

Ashraf El Afifi
Regional President and Corporate Senior Vice President for Laundry & Home Care in Africa/Middle East, in conversation with Dr. Dagmar Preis-Amberger, Head of Laundry Detergent Production in Düsseldorf. Left: Maria Lancellotti.

Formulated especially for black and dark apparel, we initially launched Persil in the Africa/Middle East region five years ago under the name Persil Abaya. The abaya is the predominantly black over-garment worn by most Arab women.

The liquid detergent combines true cleaning power with special color protection for black and dark garments – particularly important if these are washed frequently. Since June 2011, Persil Black has also been available in Germany, Austria and Switzerland – catching the crest of a fashion wave. While black is the traditional shade for women in the Africa/Middle East region, the popularity of black and dark clothing has also steadily risen in Western European markets over recent years.

“Persil Black or Persil Abaya is a perfect example of what our mix of global technology and local market expertise can achieve,” says Ashraf El Afifi, Regional President and Corporate Senior Vice President for Laundry & Home Care in the Africa/Middle East region.

Cultural and regional knowledge transfer

He and his team regularly meet with colleagues at headquarters in Düsseldorf to discuss cultural specifics and provide local expertise for the development of consumer-tailored products. With Dr. Dagmar Preis-Amberger, Head of Laundry Production in Düsseldorf, for example, El Afifi reviews both commonalities and differences impacting the production of Persil Black. “It’s great to know that, with Persil Black, we can build on the experience of our colleagues from the Gulf States – their insights are invaluable for the entire process, from production to marketing,” says Preis-Amberger.

In the Düsseldorf liquid detergent factory, Maria Lancellotti monitors the filling of Persil Black.

The formulations in Africa/Middle East and Europe have some common attributes, while the fragrances are tailored to cultural preferences. Package appearance and consumer communications are also regionally aligned. Persil Abaya was launched in the Gulf States through a mix of TV commercials and a very successful viral online marketing campaign. An interactive website was set up and there was also a designer competition, the abaya having transcended from traditional garment to individual fashion statement. In the Western European markets, the consumer campaign relied mainly on classic TV advertising, complemented by social media activities such as a game on Facebook.

“Thanks to our expertise in different regions, we are able to launch global innovations successfully in diverse local markets. This is a special strength of Henkel,” says El Afifi.

Similar formulations, regionally tailored product marketing, strong performance: Persil Black and Persil Abaya for black and dark apparel.

www.persilabayaworld.com
www.persil.de

“Persil Black is a perfect example of global technology combined with local market expertise.”

Ashraf El Afifi
Regional President and Corporate Senior Vice President for Laundry & Home Care in Africa/Middle East.

Diversity –
an asset for a global company

Mixed teams are simply more successful. One example is the cross-border cooperation put in place for the development and international marketing of Gliss Kur Ultimate Repair, a product range specifically created for damaged and dry hair, successfully launched around the world in 2011.

SHANGHAI
CHINA

Aida Rizvo
Head of Cosmetics/
Toiletries Marketing for
the Asia-Pacific region.

After just six months on the market, the Ultimate Repair line for damaged and dry hair had become the most successful launch in the brand history of Gliss Kur, leading to substantial market share gains worldwide. In order to be able to develop and market such globally successful innovations, the international marketing experts from the Cosmetics/Toiletries business sector regularly and extensively share knowledge with their counterparts in the different regions.

Pursuing the international exchange of ideas for the successful development of innovations (from the left): Enis Toksoez, Regional Marketing Manager for Africa/Middle East, Jasmin Goller, Head of International Marketing for the Gliss Kur brand, Aida Rizvo, Head of Cosmetics/Toiletries Marketing for the Asia-Pacific region, and Juan Pablo Molina, Country Manager for Peru and Ecuador.

Internationality as an innovation driver

“The key to our success lies in the international mix of our teams,” says Aida Rizvo, Head of Cosmetics/Toiletries Marketing for the Asia-Pacific region, who is located in Shanghai. A Bosnian by birth, Rizvo has been in Shanghai since June 2011. She speaks five languages and now she is learning Mandarin. “For me, interacting with international colleagues in close-knit teams is an integral part of my work at Henkel,” she adds.

Gliss Kur Ultimate Repair, which is marketed under the name Extra Care Ultimate Repair in China, was developed in the strategic business unit in Düsseldorf – with the involvement of Jasmin Goller, Head of International Marketing for the Gliss Kur brand. She also kept in close contact with Rizvo and other regional marketing experts such as Enis Toksoez representing Africa/Middle East, and Juan Pablo Molina, responsible for Peru and Ecuador.

“Our colleagues in other countries know their local market, its consumers and their preferences, better than anyone,” explains Jasmin Goller. “Consequently, interaction with them is vital for the successful development and smooth international launch of any innovation.”

They all agree that international cooperation in diverse teams is what makes the difference: the variety of knowledge of consumer needs and marketing concepts provides such teams with insights and perspectives which are critical for the successful launch of new and innovative products in competitive markets. Not just contact with international colleagues but also working in other countries provides invaluable experience. For instance, Jasmin Goller, who has Pakistani and German roots, has already worked for Henkel in India. Enis Toksoez is currently working in Dubai, but has also gained experience in Russia. And Colombian Juan Pablo Molina has been working in Peru since the beginning of 2011.

“By working abroad, you learn how to adjust to the mentalities, needs and demands of other people,” comments Rizvo. “This is a highly valuable skill to acquire – both for the individual personally and for the success of our global brands.”

Successful in European and Asian markets: Gliss Kur Ultimate Repair and Extra Care Ultimate Repair are the result of internationally coordinated insights into consumer needs and preferences.

www.schwarzkopf-retail.com.cn
www.glisskur.schwarzkopf.de

“Interacting with international colleagues is an integral part of my work at Henkel.”

Aida Rizvo
Head of Cosmetics/Toiletries Marketing for the Asia-Pacific region.

High-performance products for advanced customer needs

Sales of smartphones and tablet computers are increasing rapidly. And consumer expectations for these mobile devices are rising just as fast. They expect them to become ever more portable, yet more robust and reliable. Henkel's Adhesive Technologies business sector helps manufacturers to meet these challenges by developing materials for handheld device assembly and semiconductor packaging.

ROCKY HILL
CONNECTICUT, USA

Andrew J. Bardon
Senior Application Engineer in Technical Customer Service, North America. Far left: Karl Gabrielson and Susan Levandoski.

Henkel Adhesive Technologies manufactures materials for a wide range of applications – from inside the chip to the outside of the mobile device. Underfills, for example, help ensure that if your mobile device is dropped, it will still work. Electrically conductive solders are used to secure semiconductor devices to circuit boards and establish the electrical connections so that data and information can be processed and transmitted by mobile electronic devices. Structural adhesives bond the device housing, buttons, connectors and displays. “Henkel adhesives can be found in most smartphones and tablets around the globe,” says Andrew J. Bardon, Senior Application Engineer in Technical Customer Service.

Customized global solutions

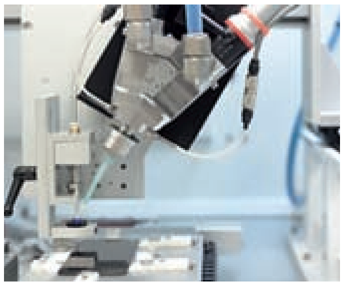
Henkel has several development laboratories located around the globe, each set up to validate our materials in equipment similar to what our customers use. Working in our labs in Rocky Hill, Connecticut, USA, Bardon states: “We test our materials in the same way as our customers, which gives us great insight on how to improve our formulations.”

Henkel’s adhesives are dispensed using special equipment, including an innovative Loctite 4530 HC dispensing robot. This unit was developed by Henkel specifically for dispensing structural adhesives, not only for testing but also for high-volume manufacturing at customers. Andrew Bardon continually checks that the robot is dispensing the adhesive correctly – applying an ultrafine strand with a diameter of just 0.35 millimeters at a speed of 50 millimeters per second. The Loctite 4530 HC is offered to customers together with Henkel adhesives as a complete system solution that perfectly matches their advanced needs.

The handheld devices team in Shanghai conducts processing tests to ensure top quality parts made with adhesives from Henkel Adhesive Technologies. From the left: Howard Qin Zhu, Dr. John Ouyang and Jessica Zhou.

Henkel teams comprised of researchers, engineers and sales managers support manufacturers throughout the product design and production process. “We test our products on prototypes and often participate in the design of next-generation mobile devices,” states Bardon. “After we complete development with our customers’ design centers, we hand off the materials for production testing and implementation in Asia, where the handheld devices are generally produced on a large scale.”

Rapid response, technological expertise, and timely customer interaction are essential for successful collaboration in fast-paced markets, like electronics. Thus, we have strategically located our Henkel material design and test laboratories close to customers. For example, the site in Irvine, California, USA, is closely located to customer design centers, while our Shanghai design center is close to the manufacturing hubs in China. This way, products can be engineered and tested around the globe around the clock.



Speed and precision in the bonding of electronic components – with the innovative Loctite 4530 HC dispensing robot.

www.henkel.com/electronics
www.loctite.com

“We offer our customers tailor-made solutions for next-generation mobile devices.”

Andrew J. Bardon
Senior Application Engineer in Technical Customer Service, North America.

Process excellence – through global shared services

Shared service centers offer greater efficiency, transparency and global standardization in a broad range of administrative and business processes. In addition to providing services for corporate functions such as Human Resources, Purchasing and Finance, teams in Henkel's shared service centers are now also being assigned to support processes serving our three business sectors.

MANILA
PHILIPPINES

Catherene Conde
Staff member of the Shared Service Center in Manila, Philippines.

Catherene Conde is one of around 400 Henkel employees working in our Shared Service Center in Manila's Makati financial district. The site was established in 2003 as the first of three global Henkel shared service centers. These centers are already managing numerous processes and providing extensive services for Henkel, from invoice accounting to capturing and updating product and customer data. The teams in Manila primarily support the regions of Asia-Pacific and North America, although they also have global responsibility for certain processes.

Team meeting at the Shared Service Center in Manila: Catherene Conde (right) with Head of SSC Barbara Elaine Kunkle and her colleague Martin Roger Daquer.

"My colleagues and I are fully committed to working toward a common objective: We aim to constantly improve our service level day by day so that we can become ever more reliable, faster and more efficient," says Conde. "We started out supporting the functions of Finance, Purchasing, Human Resources and Information Technology. Since 2011, however, we have also been working for Market Research and supporting the management of master data for different business units. It's an exciting development."

Faster and more efficient

Around the world there are about 1,000 employees – located in Manila (Philippines), Bratislava (Slovakia) and Mexico City (Mexico) – making an important contribution to the steady improvement in efficiency at Henkel.

The three shared service centers perform a number of different tasks which can be globally standardized because they do not require in-depth local expertise – unlike the development of new products or marketing in specific segments and geographic areas. Each year, for example, the centers handle around 1 million invoices and make 750,000 payments, they process 44,000 purchase orders and enter the details of more than 10,000 new customers into their systems.

Shared service centers offer a range of support activities for different organizational units – based entirely on standardized processes and IT tools. Since the establishment of these service centers, Henkel has been able to reduce its number of SAP systems. However, the fewer systems we now have are more wide-ranging and integrated, which in turn promotes the further standardization and optimization of our processes.

"Within the shared service centers, we see ourselves as a global process network working for Henkel's overall benefit. In this role we not only exchange expertise across the SSC organization but also work very closely with the local administrative units," Conde explains. "Previously, many similar – if not identical – activities needed to be carried out by different colleagues at various locations, each using their own systems and processes. We help to ensure that such processes are clearly defined so that they can then be executed by our specialist teams on an integrated basis, faster and more cost-efficient. And for our colleagues in the markets, this ultimately means more time dedicated to further strengthening customer relationships."

Established in 2011, the Shared Service Center in Mexico City has about 100 employees supporting financial processes aligned to the Latin America region.

"To become consistently more reliable, faster and more cost-efficient – that's our aim."

Catherene Conde
Staff member of the Manila Shared Service Center in the Philippines.

Employee development – challenging and rewarding talents

In a highly competitive environment, a strong commitment to high performance is vital for Henkel's success. By applying globally uniform talent management and development processes, and a compensation system based on our "Development Round Table" meetings, we ensure that our managerial staff of about 9,000 receive clear and differentiated feedback, as well as recognition for outperformance.

Dr. Zuzana Schütz-Halkova
Vice President Human Resources for Central and Eastern Europe, with Ildar Akbaev, Head of General Industry in the Adhesive Technologies business sector, discussing the development of his team.

As VP Human Resources for Central and Eastern Europe, Dr. Zuzana Schütz-Halkova consults with our top-level managers in the region during their "Development Round Tables" (DRTs). In the course of these highly interactive annual meetings, line managers discuss the performance, the potential, and the career opportunities and related development requirements of their employees.

"Each year, we hold about 50 DRT meetings covering the entire Central and Eastern Europe region. These are our forum for discussing the performance of our managers within their spheres of responsibility, and also possible areas where we can further support their development," explains Schütz-Halkova. The employees concerned subsequently receive comprehensive feedback from their line managers in an appraisal meeting. The two participants then agree on the individual development measures required. "I'm particularly proud of the fact that these annual DRT meetings provide all our managers around the world with the same career development opportunities," says Schütz-Halkova. "My HR colleagues conduct the process in exactly the same way in all the countries and regions in which Henkel operates."

Enhancing our performance-based feedback culture

The measures derived from the DRT meetings help to identify, further develop and effectively deploy talent within Henkel. In the Central and Eastern Europe region (CEE), for example, more than 160 employees were identified for assignment to international postings in 2011. As well as organizing numerous specialist and management seminars – often using our "CEE Academy" platform – we also supported the advancement of around 100 managerial staff in our eight development centers.

An important aspect of the DRT system is the identification of performance differentials among our employees through in-depth discussion and evaluation by a group of supervising managers. Based on this differentiated assessment, we are able to offer above-average rewards for excellent performance.

"At Henkel, we have established a culture that promotes open feedback combined with a strong focus on performance," explains Schütz-Halkova. And the example set by managers is important for further extending its reach. For management means not only assembling and further developing good teams, it also means dealing with all employees fairly on the basis of mutual trust and respect. It is essential that we encourage each member of the Henkel team to take full responsibility for their contribution, clearly identifying areas for improvement and appropriately rewarding success.

A meeting of the Cosmetics/Toiletries team for Central and Eastern Europe: Dr. Zuzana Schütz-Halkova (second from the right) advises Vice President Cosmetics/Toiletries Georg Höbenstreit (fourth from the right) and his team at a DRT that she and Monika Rauscher (standing) organized.

"Our aim is to properly assess performance, identify potential and provide the best development."

Dr. Zuzana Schütz-Halkova
Vice President HR for Henkel Central and Eastern Europe

Shares and bonds

- Henkel shares track higher than overall market
- Henkel preferred share's DAX 30 weighting increased
- Henkel's position in leading sustainability indices confirmed
- International, widely diversified shareholder structure

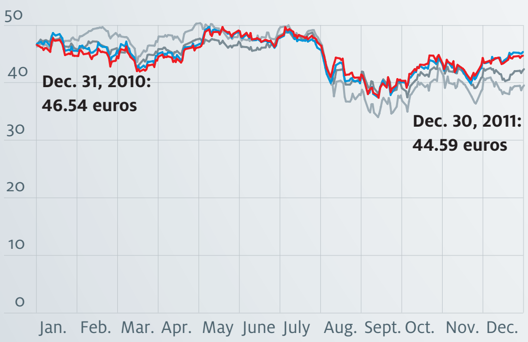
Key data on Henkel shares 2007 to 2011

in euros	2007 [1]	2008	2009	2010	2011
Earnings per share					
Ordinary share	2.12	2.81	1.38	2.57	**2.88**
Preferred share	2.14	2.83	1.40	2.59	**2.90**
Share price at year-end [2]					
Ordinary share	34.95	18.75	31.15	38.62	**37.40**
Preferred share	38.43	22.59	36.43	46.54	**44.59**
High for the year [2]					
Ordinary share	37.50	34.95	31.60	40.30	**41.10**
Preferred share	41.60	38.43	36.87	48.40	**49.81**
Low for the year [2]					
Ordinary share	29.96	16.68	16.19	30.31	**30.78**
Preferred share	33.70	19.30	17.84	35.21	**36.90**
Dividends					
Ordinary share	0.51	0.51	0.51	0.70	**0.78 [3]**
Preferred share	0.53	0.53	0.53	0.72	**0.80 [3]**
Market capitalization [2] in bn euros	**15.9**	**8.9**	**14.6**	**18.3**	**17.6**
Ordinary share in bn euros	9.1	4.9	8.1	10.0	**9.7**
Preferred share in bn euros	6.8	4.0	6.5	8.3	**7.9**

[1] Comparable based on share split (1:3) of June 18, 2007.
[2] Closing share prices, Xetra trading system.
[3] Proposal to shareholders for Annual General Meeting on April 16, 2012.

Henkel share performance versus market January through December 2011

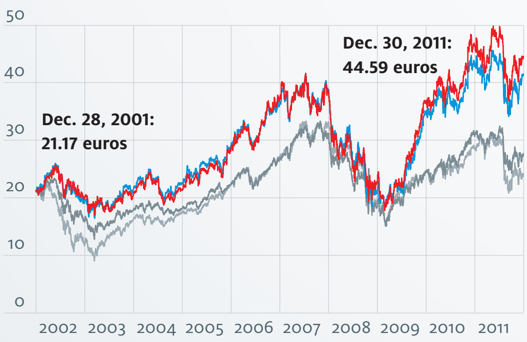
in euros



- Henkel preferred share
- Henkel ordinary share (indexed)
- DJ Euro Stoxx Consumer Goods (indexed)
- DAX (indexed)

Henkel share performance versus market 2002 through 2011

in euros



- Henkel preferred share
- Henkel ordinary share (indexed)
- DJ Euro Stoxx Consumer Goods (indexed)
- DAX (indexed)

17.6 bn euros
market capitalization.

Overall, the price of Henkel shares decreased slightly in the course of 2011. In the wake of the growing severity of the debt crisis and the associated recession fears, the DAX experienced a decline of 14.7 percent compared to the closing figure for the preceding year. The industry benchmark in the form of the Dow Jones Euro Stoxx Consumer Goods Index decreased 9.6 percent. Within this market environment, the price of Henkel preferred shares fell to 44.59 euros, closing the year 4.2 percent below the prior-year level. Our ordinary share prices likewise declined slightly, ending the year 3.1 percent down at 37.40 euros. This means our shares withstood the general decline better than both the DAX and the shares representing the consumer goods sector.

In the course of the year, Henkel shares tended to track the overall market, although generally performing somewhat better. In the first quarter, a period characterized by worldwide political upheavals, natural disasters and a mixed set of share price developments on the stock exchanges, Henkel share prices declined. In the more positive market environment of the second quarter, Henkel's shares increased significantly in value, reaching historic highs in May of 49.81 euros for the preferred share and 41.10 euros for the ordinary share. In the third quarter, rendered particularly difficult by the debt crises in Europe and the USA, Henkel's shares suffered double-digit price declines, although still tracking somewhat better than the overall market. In the fourth quarter, Henkel's shares once again rose appreciably in value, concluding fiscal 2011 slightly down but substantially outperforming comparative indices.

The preferred share premium versus the ordinary share in 2011 averaged 20.8 percent.

The trading volume of preferred shares was slightly below the prior-year level. Each trading day saw an average of 0.9 million preferred shares changing hands (previous year: 1.0 million). The average volume in the case of our ordinary shares decreased to 120,000 per trading day (previous year: 130,000). Due to price movements, the market capitalization of our ordinary and preferred stock combined decreased from 18.3 billion euros to 17.6 billion euros.

For long-term investors, Henkel's shares remain an attractive investment. Shareholders who invested the equivalent of 1,000 euros when Henkel's preferred shares were issued in 1985, and then re-invested the dividends received (before tax deduction) in the stock, would have had a portfolio value of about 13,974 euros by the end of 2011. This represents an investment growth of 1,297 percent or an average yield of 10.6 percent per year. Over the same period, DAX tracking would have provided an annual yield of 6.4 percent. Over the last five and ten years, Henkel preferred shares have shown an average yield of 5.6 and 9.6 percent per year respectively, offering a significantly higher return than the DAX's 2.7 percent and 1.3 percent in the same respective periods.

Henkel represented in all major indices

Henkel shares are traded on the Frankfurt Stock Exchange, predominantly on the Xetra electronic trading platform. Henkel is also represented on all the other regional stock exchanges in Germany. In the USA, investors are able to acquire Henkel preferred and ordinary shares by way of stock ownership certificates obtained through the Sponsored Level I ADR (American Depositary Receipt) program. The number of ADRs representing ordinary and preferred shares outstanding at the end of the year was about 3.7 million (end of 2010: 4.1 million).

Share data

	Preferred	Ordinary
Security code no.	604843	604840
ISIN code	DE0006048432	DE0006048408
Stock exch. symbol	HEN3.ETR	HEN.ETR
Number of shares	178,162,875	259,795,875

ADR data

	Preferred	Ordinary
CUSIP	42550U208	42550U109
ISIN code	US42550U2087	US42550U1097
ADR symbol	HENOY	HENKY

Shareholder structure: Institutional investors holding Henkel preferred shares

- 24 % USA
- 23 % UK
- 17 % Germany
- 10 % France
- 18 % Rest of Europe
- 8 % Rest of world

Source: Thomson Reuters.

The international importance of Henkel preferred shares derives not least from their inclusion in major indices that serve as important indicators for the capital markets and as benchmarks for fund managers. Particularly noteworthy in this respect are the MSCI World, the Dow Jones Euro Stoxx, and the FTSE World Europe indices. Henkel is also listed in the Dow Jones Titans 30 Personal & Household Goods Index, confirming our position as one of the 30 most important listed corporations operating in the personal and household goods sectors worldwide. And as a DAX stock, Henkel counts as one of the 30 most important listed companies in Germany.

Once again our advances and achievements on the sustainable development front likewise impressed the independent experts in 2011. Henkel's position in various national and international sustainability ratings and indices was further confirmed. The Dow Jones Sustainability Index (World and Europe) listed Henkel for the fifth consecutive year as industry leader in the market sector "Nondurable Household Goods." Our place in the FTSE4Good Ethical Index was likewise confirmed, as was our continued membership of the Ethibel Sustainability Index. In the latter, Henkel is one of just 200 corporations included from around the world. Henkel was also inducted into the Stoxx Global ESG Leaders index family newly launched in 2011 by Deutsche Börse (German Stock Exchange), and is thus listed as a "sustainable security" in the associated information portal. Since April 2011, the portal has acted as a funnel combining all the sustainable securities listed for trading on the German stock exchange.

As of year-end 2011 the market capitalization of the DAX-relevant preferred shares was 7.9 billion euros, placing Henkel 20th among DAX companies (2010: 21st). In terms of trading volumes, Henkel was ranked 27th on the list (2010: 26th). Our DAX weighting rose to 1.52 percent (2010: 1.32 percent).

International shareholder structure

The ownership structure of our preferred shares – the significantly more liquid class of stock – shows a free float of 100 percent. A large majority of these shares are owned by institutional investors with globally distributed shareholdings.

According to notices of disclosure received by the company, members of the Henkel family own a majority of the ordinary shares amounting to 53.21 percent. We have received no further notices of disclosure from other shareholders indicating a shareholding in excess of 3 percent of the voting shares (notifiable ownership).

In the period up to 2007, Henkel repurchased around 7.5 million preferred shares to fund the Stock Incentive Plan operated for our senior executive personnel. As of December 31, 2011, this treasury stock amounted to 3.8 million preferred shares.

Employee share program

Since 2001, Henkel has been operating an employee share program (ESP). For each euro invested in 2011 by an employee (limited to 4 percent of salary up to a maximum of 5,000 euros per year), Henkel added an additional 33 eurocents. Around 11,000 employees in 54 countries purchased Henkel preferred shares under this program in 2011. At year-end, some 14,500 employees held a total of around 3 million shares within the ESP, representing roughly 1.7 percent of total preferred shares outstanding. The vesting period for newly acquired ESP shares is three years.

Henkel bonds

Henkel is represented in the international bond markets by three bonds with a total nominal volume of 3.3 billion euros:

Bond data

	Senior bond	Senior bond	Hybrid bond
Due date	June 10, 2013	Mar. 19, 2014	Nov. 25, 2104[1]
Volume	1.0 bn euros	1.0 bn euros	1.3 bn euros
Nominal coupon	4.25 %	4.625 %	5.375 %
Coupon payment date	June 10	March 19	Nov. 25
Listing	Frankfurt	Luxembourg	Luxembourg
Security code no.	664196	A0AD9Q	A0JBUR
ISIN code	DE0006641962	XS0418268198	XS0234434222

[1] First call option for Henkel on November 25, 2015.

Further detailed information regarding these bonds, current developments in their respective prices and the associated risk premium (credit margin) can be found on our website
www.henkel.com/bonds

Pro-active capital market communication

Henkel is covered by numerous financial analysts, primarily in the UK, Germany and the USA. Over 35 equity and debt analysts regularly publish reports and commentaries on the performance of the company.

Henkel places great importance on meaningful dialogue with both investors and analysts. In 2011, institutional investors and financial analysts were afforded the opportunity to talk directly with our top management in more than 25 capital market conferences and road shows held in Europe and North America.

The two highlights of the year were our Analyst and Investor Conference held in Düsseldorf on February 24, 2011, and our Investor Day for the Cosmetics/Toiletries business sector, which took place on May 17, 2011. At this latter conference the Cosmetics/Toiletries management team presented the strategy and new developments of the business sector to some 50 investors and analysts from around the world. Outside such events, we conducted numerous telephone conferences and one-on-one meetings.

Retail investors are able to receive all relevant information through telephone enquiry or via the Investor Relations website at www.henkel.com/ir. This also serves as the portal for the live broadcast of telephone and analyst conferences, and the part-transmission of the Annual General Meeting. The AGM offers all shareholders the possibility of obtaining extensive information directly from Henkel's management.

The quality of our capital market communication was again evaluated in 2011 by various independent rankings. Our Investor Relations team garnered a number of top positions in various comparisons with European corporations in the Home & Personal Care category, as well as with other DAX companies – including second place in the Household Products & Personal Care sector in the ThomsonExtel Pan-European Awards ranking. And in the Institutional Investor ranking, Henkel was voted by financial analysts as having the best Investor Relations Team in the European Household & Personal Care Products sector. Following a study by the research institute "Media Tenor," Henkel took first place for the best media image of all DAX 30 corporations in 2011.

The quality of our reporting of our non-financial performance indicators (environmental, social and governance [ESG] issues) was once again acknowledged by financial market participants. In the study "Entrepreneurial Responsibility in the Age of Transparency" carried out by the auditing and business consultancy company PricewaterhouseCoopers (PwC), the Henkel Sustainability Report received the best overall score of 95 percent. The UK agency Two Tomorrows placed Henkel in the second highest investment category (AA) in recognition of our transparent reporting. In a sustainability rating published in March 2011 by the German business weekly "WirtschaftsWoche" in tandem with "Börse Online," Henkel was voted sector leader and best German company out of a total of around 3,000 entities analyzed. And as a participant in the Carbon Disclosure Project Germany, Henkel was once again listed in the Carbon Disclosure Leadership Index.

You will find a financial calendar with all our earnings release and announcement dates on the inside back cover of this Annual Report.

Analyst recommendations

- 41 % Buy
- 44 % Hold
- 15 % Sell

At December 31, 2011.
Basis: 32 equity analysts.

Group management report

Subindex

Corporate governance at Henkel AG & Co. KGaA

The Management Board, the Shareholders' Committee and the Supervisory Board are committed to ensuring that the management and stewardship of the corporation are conducted in a responsible and transparent manner aligned to achieving a long-term increase in shareholder value. In keeping with this undertaking, they have pledged themselves to the following three principles:

- **Value creation** as the foundation of our management approach.
- **Sustainability** achieved through the application of socially responsible management principles.
- **Transparency** supported by an active and open information policy.

I. Corporate governance / Corporate management report

The German Corporate Governance Code (Kodex) was introduced in order to promote confidence in the management and oversight of listed German corporations. It sets out the regulations and also the internationally and nationally recognized standards of responsible corporate management as applicable to the situation in Germany. The Kodex, which is aligned to the statutory provisions applicable to a German joint stock corporation ("Aktiengesellschaft" [AG]), is applied analogously by Henkel AG & Co. KGaA. For a better understanding of the situation at Henkel, this report describes the principles underlying the management and control structure of the corporation together with the special features, distinguishing us from an AG, that derive from our specific legal form and our Articles of Association. Also explained in the following are the main rights granted to shareholders of Henkel AG & Co. KGaA. The report takes into account the recommendations of the Kodex and contains all the disclosures and explanations required according to Sections 289 (4), 289a and 315 (4) of the German Commercial Code [HGB].

Legal form / Special statutory features of Henkel AG & Co. KGaA

Henkel is a "Kommanditgesellschaft auf Aktien" (KGaA). A KGaA is a company with its own legal personality (i.e. it is a legal entity) in which at least one partner assumes unlimited liability in respect of the company's creditors (personally liable partner). The other partners participate in the capital stock, which is split into shares, and their liability is limited by these shares; they are thus not liable for the company's debts (limited partners per Section 278 (1) German Stock Corporation Act [AktG]).

- In terms of its legal structure, a KGaA is a mixture of a joint stock corporation (AG) and a limited partnership (KG), with the bias toward stock corporation law. The differences with respect to an AG are essentially as follows: The duties of the executive board of an AG are performed at Henkel AG & Co. KGaA by Henkel Management AG – acting through its Management Board – as the sole Personally Liable Partner (Sections 278 (2) and 283 AktG in conjunction with Article 11 of our Articles of Association).
- The rights and duties of the supervisory board of a KGaA are more limited compared to those of the supervisory board of an AG. In particular, the supervisory board is not authorized to appoint personally liable partners, to preside over the associated contractual arrangements, to impose procedural rules on the management board or to rule on business transactions. A KGaA is not required to appoint a director of labor affairs, even if, like Henkel, the company is bound to abide by Germany's Codetermination Act of 1976.
- The general meeting of a KGaA essentially has the same rights as the shareholders' meeting of an AG. In addition, it votes on the adoption of the annual financial statements of the corporation; it further formally approves the actions of the personally liable partner(s). In the case of Henkel, it also elects and approves the actions of the members of the Shareholders' Committee. Resolutions passed in general meeting require the approval of the personally liable partner where they involve matters which, in the case of a partnership, require the authorization of the personally liable partners and also that of the limited partners (Section 285 (2) AktG) or relate to the adoption of annual financial statements (Section 286 (1) AktG).

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According to our Articles of Association, in addition to the Supervisory Board, Henkel also has a standing Shareholders' Committee comprising a minimum of five and a maximum of ten members, all of whom are elected by the Annual General Meeting (AGM) (Article 27 of the Articles of Association). The Shareholders' Committee is required in particular to perform the following functions:

- It acts in place of the AGM in guiding the business activities of the corporation.
- It decides on the appointment and dismissal of the personally liable partner(s).

- It holds both the power of representation and executive powers over the legal relationships prevailing between the corporation and Henkel Management AG, the Personally Liable Partner.
- It exercises the voting rights of the corporation in the General Meeting of Henkel Management AG.
- It issues rules of procedure incumbent upon Henkel Management AG (Section 278 (2) AktG) in conjunction with Sections 114 and 161 HGB and Articles 8, 9 and 26 of the Articles of Association.

Capital stock denominations / Shareholder rights
The capital stock of the corporation amounts to 437,958,750 euros. It is divided into a total of 437,958,750 bearer shares of no par value, of which 259,795,875 are ordinary bearer shares (nominal proportion of capital stock: 259,795,875 euros or 59.3 percent) and 178,162,875 are preferred bearer shares (nominal proportion of capital stock: 178,162,875 euros or 40.7 percent). All the shares are fully paid up.

Each ordinary share grants to its holder one vote. The preferred shares accord to their holders all shareholder rights apart from the right to vote. Unless otherwise resolved in General Meeting, the profit attributable to shareholders of Henkel AG & Co. KGaA is distributed as follows: First, the holders of preferred shares receive a preferred dividend in the amount of 0.04 euros per preferred share. The holders of ordinary shares then receive a preliminary dividend of 0.02 euros per ordinary share, with the residual amount being distributed to the holders of ordinary and preferred shares in accordance with the proportion of the capital stock attributable to them (Art. 35 (2) of the Articles of Association). If the preferred dividend is not paid out either in part or in whole in a year, and the arrears are not paid off in the following year together with the full preferred share dividend for that second year, the holders of preferred shares are accorded voting rights until such arrears are paid (Section 140 (2) AktG). Cancellation or limitation of this preferred dividend requires the consent of the holders of preferred shares (Section 141 (1) AktG).

There are no shares bearing cumulative/plural voting rights, preferential voting rights or maximum voting rights (voting restrictions).

The shareholders exercise their rights in General Meeting as per the relevant statutory provisions and the Articles of Association of Henkel AG & Co. KGaA. In particular, they may exercise their right to vote – either personally, by postal vote, through a legal representative or through a proxy-holder nominated by the company – and are also entitled to speak on agenda items, ask relevant questions and propose reasonable motions.

Unless otherwise required by mandatory provisions of statute or the Articles of Association, the resolutions of the General Meeting are adopted by simple majority of the votes cast and, inasmuch as a majority of shares is required by statute, by simple majority of the voting stock represented (Art. 24 of the Articles of Association). This also applies to changes in the Articles of Association. However, modifications to the object of the company require a three-quarters' majority (Section 179 (2) AktG).

Approved capital / Share buy-back
According to Art. 6 (5) of the Articles of Association, there is an authorized capital limit. Acting within this limit, the Personally Liable Partner is authorized, subject to the approval of the Supervisory Board and of the Shareholders' Committee, to increase the capital stock of the corporation in one or several acts until April 18, 2015, by up to a total of 25,600,000 euros through the issue for cash of new preferred shares with no voting rights. All shareholders are essentially assigned pre-emptive rights. However, these may be set aside in three cases: (1) in order to dispose of fractional amounts; (2) to grant to creditors/holders of bonds with warrants or conversion rights or a conversion obligation issued by the corporation or one of the companies dependent upon it, pre-emptive rights corresponding to those that would accrue to such creditors/bondholders following exercise of their warrant or conversion rights or on fulfillment of their conversion obligations; or (3) if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing.

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time until April 18, 2015, up to a maximum nominal proportion of the capital stock of 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, in particular, be transferred to third parties for the purpose of acquiring entities or participating interests in entities. Treasury shares may also be sold for cash, provided that the purchase price is not materially 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 stock without further resolution in General Meeting being required.

Inasmuch as shares may be issued or used to the exclusion of pre-emptive rights, the proportion of capital stock represented by such shares shall not exceed 10 percent.

Major shareholders
According to notifications received by the company on October 21, 2010, a total of 53.21 percent of the voting rights are held by parties to the Henkel family's share-pooling agreement. This agreement was concluded between members of the families of the descendants of company founder Fritz Henkel; it contains restrictions with respect to transfers of the ordinary shares covered (Art. 7 of the Articles of Association).

Interaction between Management Board, Supervisory Board, Shareholders' Committee and other committees
The Management Board, the Shareholders' Committee and the Supervisory Board are committed to ensuring that the management and stewardship of the corporation are conducted in a responsible and transparent manner aligned to achieving a long-term increase in shareholder value. In keeping with this undertaking, they have pledged themselves to the following three principles:

The members of the Management Board are responsible for managing Henkel's business operations in their entirety. To this end, the individual Management Board members are assigned – in accordance with a business distribution plan – areas of competence for which they bear lead responsibility. The members of the Management Board cooperate closely as colleagues, informing one another of all major occurrences within their areas of competence and conferring on all actions that may affect several such areas. Further details relating to cooperation and the division of operational responsibilities are regulated by rules of procedure issued by the Supervisory Board of Henkel Management AG. The Management Board reaches its decisions by a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote.

The Management Board agrees with the Shareholders' Committee the strategic alignment of the corporation and discusses with the Shareholders' Committee at regular intervals the status of implementation of said strategy.

In keeping with good corporate management practice, the Management Board informs the Supervisory Board and the Shareholders' Committee regularly, and in a timely and comprehensive fashion, of all issues of relevance to the corporation concerning business policy, corporate planning, profitability, the business development of the corporation and of major Group companies, and also matters relating to risk exposure and risk management.

For transactions of fundamental significance, the Shareholders' Committee has established a right of veto in the procedural rules governing the actions of Henkel Management AG in its function as sole Personally Liable Partner (Art. 26 of the Articles of Association). This covers, in particular, decisions or measures that materially change the net assets, financial position or results of operations of the corporation. The Management Board complies with these rights of consent of the Shareholders' Committee and also duly submits to the spheres of authority of the corporation's General Meeting.

The Shareholders' Committee passes its resolutions on the basis of a simple majority of the votes cast. It has established a Finance Subcommittee and a Human Resources Subcommittee, each of which comprises five members of the Shareholders' Committee. The Finance Subcommittee deals principally with the financial matters, accounting issues including external auditing, taxation planning and accounting policies, and the internal auditing and risk management of the corporation. It also carries out the necessary preparatory work for decisions to be taken by the Shareholders' Committee in such affairs. The Human Resources Subcommittee principally discusses personnel matters relating to the members of the Management Board, human resources strategy, and remuneration. It is further concerned with succession planning and identifying management potential within the individual business sectors, taking into account relevant diversity aspects.

53.21 %
of voting rights held by members of the Henkel share-pooling agreement.

It is the responsibility of the Supervisory Board to advise and supervise the Management Board in the performance of its business management duties. The Supervisory Board also reviews the annual financial statements of Henkel AG & Co. KGaA and the consolidated financial statements, taking into account the audit reports submitted by the auditor. It further submits to the Annual General Meeting a proposal indicating its recommendation for the appointment of the external auditor.

As a rule, the Supervisory Board meets four times per year. It passes resolutions by a simple majority of votes cast. In the event of a tie, the Chairperson has the casting vote. The Supervisory Board has established an Audit Committee and a Nominations Committee. The Audit Committee is made up of three shareholder- and three employee-representative members of the Supervisory Board, each elected by the Supervisory Board based on proposals of their fellow shareholder or fellow employee representatives on the Supervisory Board. The Chairperson of the Audit Committee is elected by the shareholder representative members on the Supervisory Board. It is a statutory requirement that the Audit Committee includes an independent member of the Supervisory Board with expertise in the fields of accounting and auditing. The Chairperson of the Audit Committee, Dr. Bernhard Walter, who is not the Chairperson of the Supervisory Board or a former member of the Management Board, satisfies these requirements. The Audit Committee, which generally meets four times a year, prepares the proceedings and resolutions of the Supervisory Board relating to the adoption of the annual financial statements and the consolidated financial statements, and also the auditor appointment proposal to be made to the Annual General Meeting. It issues audit mandates to the auditor and defines the focal areas of the audit or review, as well as dealing with questions of audit fee and other advisory services provided by the auditor. It monitors the independence and qualifications of the auditor, requiring the latter to submit a declaration of independence which it then evaluates. The Audit Committee monitors the accounting process and assesses the effectiveness of the internal control system, the risk management system and the internal auditing and review system, as well as being involved in compliance issues. It also discusses with the Management Board, with the external auditor in attendance, the quarterly reports and the financial report for the half-year prior to their publication.

The Nominations Committee comprises the Chairperson of the Supervisory Board and two further shareholder representatives elected by the shareholder representatives on the Supervisory Board; the Chairperson of the Supervisory Board is also Chairperson of the Nominations Committee. The Nominations Committee prepares the proposals to be submitted by the Supervisory Board to the Annual General Meeting for the election of members to the Supervisory Board (shareholder representatives).

At regular intervals, the Supervisory Board and the Shareholders' Committee hold an internal review to determine the efficiency with which they and their committees/subcommittees carry out their duties. This self-assessment is performed on the basis of an extensive checklist, whereupon points relating to corporate governance and improvement opportunities are also discussed.

Pursuant to the German Corporate Governance Code (Kodex), conflicts of interest must be disclosed in an appropriate manner to the Supervisory Board or Shareholders' Committee, particularly those that may arise as the result of a consultancy or committee function performed in the service of customers, suppliers, lenders or other business partners. Members encountering material conflicts of interest that are more than just temporary are required to resign their mandate.

Some members of the Supervisory Board and of the Shareholders' Committee are or were in past years holders of senior managerial positions in other companies. Inasmuch as Henkel pursues business activities with these companies, the same arm's length principles apply as those applicable to transactions with and between unrelated third parties.

For more details on the composition of the Management Board, the Supervisory Board and the Shareholders' Committee, the committees established within the Supervisory Board and the subcommittees of the Shareholders' Committee, please refer to AR pages 156 to 159. Details of compensation can be found in the remuneration report on AR pages 36 to 44.

Objectives regarding Supervisory Board composition
Taking into account the specific situation of the corporation, in December 2010 the Supervisory Board passed a resolution detailing the objectives for its composition as detailed below. These

objectives, to be reviewed at regular intervals, will be taken into account by the Supervisory Board when proposing election candidates to the Annual General Meeting for all re-electable and ad-hoc replacement Supervisory Board positions:

- The members of the Supervisory Board should, generally speaking, offer the knowledge, skills and relevant experience necessary in order to properly perform their duties. Particularly required are experience and expertise in one or several of the fields of corporate management, book-keeping and accountancy, financial control/risk management, corporate governance/compliance, research and development, production/technology, and marketing/sales/distribution, as is knowledge of the industrial or consumer business in the primary markets in which Henkel is active. Members of the Supervisory Board should also have sufficient time at their disposal in order to carry out their mandate.
- The international activities of the corporation should be appropriately reflected in the composition of the Supervisory Board. Consequently, efforts will be made to retain those current members with an international background. The mix of candidates proposed for election should also contain an appropriate number of women. Here, a proportion of 25 percent is essentially regarded as appropriate. Efforts will therefore be made to maintain or, if possible, increase this proportion for upcoming new and ad-hoc replacement elections.
- In addition, the Supervisory Board should have a sufficient number of independent members. In future, therefore, the Supervisory Board is to contain not more than two former members of the Management Board, no persons who perform board or committee functions or act as consultants for major competitors, and no persons whose relationship with the corporation or members of the Management Board could give rise to conflicts of interest. Further, no persons shall be proposed for election who, at the time of the election, have already reached their 70th birthday.

Objectives attainment status

Generally, the Supervisory Board has at its disposal the knowledge, skills and technical abilities needed to properly and effectively perform its duties. In particular, the Supervisory Board counts among its number several members offering international business experience or other international expertise. No-one sitting on the Supervisory Board exceeds the specified maximum age.

In accordance with the proposal put forward by the Executive Staff Representation Committee of Henkel AG & Co. KGaA, Düsseldorf District Court appointed Dr. Martina Seiler as member of the Supervisory Board to replace Mr. Ulf Wentzien, who resigned from the Supervisory Board as the Representative of the Senior Staff of Henkel AG & Co. KGaA on December 31, 2011. This means that currently five of the 16 members of the Supervisory Board are female, and the proportion of women on the Supervisory Board stands at around 31 percent. In keeping with the objective of, where possible in new elections, increasing the proportion of seats occupied by women, the Supervisory Board proposes to the 2012 Annual General Meeting that, for the scheduled re-election of the shareholder representatives, two women – instead of one as has previously been the case – be elected to the Supervisory Board. Subject to the proposed candidates being elected, this would increase the proportion of female representatives on the Supervisory Board to around 38 percent.

Around **31 %**
Supervisory Board membership female.

Transparency / Communications

An active and open communication policy ensuring prompt and continuous information dissemination is a major component of the value-based management approach at Henkel. Hence shareholders, shareholder associations, participants in the capital market, financial analysts, the media and the public at large are kept informed of the current situation and major business changes relating to the Henkel Group, with all stakeholders being treated equally. All such information is also promptly made available on the internet.

Up-to-the-minute information is also incorporated in the regular financial reporting undertaken by the corporation. The dates of the major recurring publications, including the dates for the press conference on the preceding fiscal year and the Annual General Meeting, are announced in our financial calendar, which is also available on the internet.

The corporation's advancements and targets in relation to the environment, safety, health and social responsibility are published annually in our Sustainability Report. Shareholders, the media and the public at large are provided with comprehensive information through press releases and information events, while occurrences with the potential to materially affect the price of Henkel shares are communicated in the form of ad-hoc announcements.

Further details relating to corporate governance can be found on our website at www.henkel.com/ir

Principles of corporate management / Compliance
The members of the Management Board conduct the corporation's business with the care of a prudent and conscientious business director in accordance with the requirements stipulated in law, in the Articles of Association of Henkel Management AG and the Articles of Association of Henkel AG & Co. KGaA, the rules of procedure governing the actions of the Management Board, the provisions contained in the individual contracts of employment and also the compliance guidelines and resolutions adopted by and within the Management Board.

Corporate management principles which go beyond the statutory requirements are derived from our vision and our values. For our company to be successful, it is essential that we share a common approach to entrepreneurship. The company's vision provides its management and employees worldwide with both direction and a primary objective. It reaffirms our ambition to meet the highest standards in everything we do.

Our vision:
- A global leader in brands and technologies.

Our vision provides the foundation for building a company with a common ethic: "One Henkel." The company's values guide its employees in all the day-to-day decisions they make, providing a compass for their conduct and actions.

Our values:
- We put our customers at the center of what we do.
- We value, challenge and reward our people.
- We drive excellent sustainable financial performance.
- We are committed to leadership in sustainability.
- We build our future on our family business foundation.

Henkel is committed to ensuring that all business transactions are conducted in an ethically irreproachable, legal fashion. Consequently, Henkel expects all its employees not only to respect the company's internal rules and all relevant laws, but also to avoid conflicts of interest, to protect Henkel's assets and to respect the customs, traditions and social values of the countries and cultural environments in which the company does business. The Management Board has therefore issued a series of Group-wide codes, standards and guidelines with binding precepts. These regulatory instruments are regularly reviewed and amended as appropriate, evolving in step with the changing legal and commercial conditions that affect Henkel as a globally active corporation. Our Code of Conduct supports our employees in dealing with ethical and legal issues; our Code of Teamwork and Leadership defines the approach, actions and attitudes to be adopted by management and employees in their interpersonal dealings; and the Code of Corporate Sustainability describes the principles that underlie our approach to sustainable, socially responsible development. These codes also enable Henkel to meet the commitments derived from the Global Compact of the United Nations.

Ensuring compliance in the sense of obeying laws and adhering to regulations is an integral component of our business processes. Henkel has established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible Chief Compliance Officer. The CCO manages and controls compliance-related activities undertaken at the corporate level, coordinates training courses, oversees fulfillment of both internal and external regulations, and supports the corporation in the further development and implementation of the associated standards. He is assisted in this capacity by Internal Audit, and also by a Compliance Committee of interdisciplinary composition.

The remit of the local and regional compliance officers includes organizing and overseeing the training activities and implementation measures tailored to the specific requirements of their locations. They report through the locally or regionally responsible presidents to the Chief Compliance Officer. The CCO and the head of Internal Audit report regularly to the Management Board and also the Audit Committee of the Supervisory Board on identified compliance violations.

The issue of compliance is also a permanent item in the target agreements signed by all managerial staff in the Group. Because of their seniority, it is particularly incumbent on them to set the right example for their subordinates, to effectively communicate the compliance rules and to ensure that these are obeyed through the implementation of suitable organizational measures.

The procedures to be adopted in the event of complaints or suspicion of malpractice also constitute an important element of the compliance regime. In addition to our internal reporting system and complaint registration channels, employees may also, for the purpose of reporting serious violations to the CCO, anonymously use a Compliance Hotline operated by an external service-provider. The CCO is mandated to initiate the necessary follow-up procedures.

Our corporate compliance activities are focused on the fields of safety, health and the environment, antitrust law and the fight against corruption. In our Code of Conduct, last revised in 2009, in the corporate guidelines based upon this, and in other publications, the Management Board clearly expresses its rejection of all contraventions of the principles of compliance, particularly antitrust violations and corruption. For Henkel, bribery and anticompetitive agreements are no way to do business. We do not tolerate such violations of the law.

A further compliance-relevant area relates to capital market law. Supplementing the legal provisions, internal codes of conduct have been put in place to regulate the treatment of information that has the potential to affect share prices. The company has an Ad-hoc Committee comprising representatives of various departments. In order to ensure that all insider information is handled as required by law, this reviews developments and events for their possible effect on share prices, determining the need to issue reports to the capital markets on an ad-hoc basis. There are also rules that go beyond the legal requirements, governing the behavior of the members of the Board of Management, the Supervisory Board and the Shareholders' Committee, and also employees of the corporation who, due to their function or involvement in projects, have access to insider information. An insider register is kept, listing the people involved.

For further information relating to the principles guiding our corporate stewardship, please go to our website at www.henkel.com/ir

Application of the German Corporate Governance Code

Taking into account the special features arising from our legal form and Articles of Association, Henkel AG & Co. KGaA complies with the recommendations ("shall" provisions) of the German Corporate Governance Code (Kodex), with two exceptions: (1) The executive contracts concluded in 2008 with respect to those members of the Management Board who were appointed in conjunction with the establishment of Henkel Management AG as the Personally Liable Partner in 2008 and whose mandate since that time has not yet been extended for a period of more than two years, contain no severance pay cap in the event of premature termination of their tenure as executives of the corporation without good cause or reason, i.e. severance payouts may exceed the formal maximum of two years' emoluments. Newly concluded post-2008 executive contracts and executive contracts extended for a period of more than two years do contain a severance pay cap. (2) In order to protect the legitimate interests and private spheres of the members of the corporate management bodies who are also members of the Henkel family, their individual shareholdings are not disclosed unless required by law. The Kodex requires disclosure of shareholdings upward of 1 percent.

Henkel also complies with all the suggestions ("may/should" provisions) of the Kodex in keeping with our legal form and the special statutory features anchored in our Articles of Association.

In accordance with Section 15 a of the Securities Trading Act [WpHG] (Directors' Dealings), members of the Management Board, the Supervisory Board and the Shareholders' Committee, and parties related to same, are obliged to disclose transactions involving shares in Henkel AG & Co. KGaA or their derivative financial instruments where the value of such transactions attains or exceeds 5,000 euros in a calendar year. In fiscal 2011 Henkel was informed of a total of 23 transactions. In ten transactions conducted by members of the Shareholders' Committee and the Supervisory Board, or parties related to same, a total of 16,000 preferred shares were purchased and 431,327 preferred shares were sold. One member of the Shareholders' Committee conducted a total of eight new put and call option transactions involving a total of 785,717 preferred shares and 505,509 ordinary shares, and in 2010 completed five put and call option deals involving a total of

605,000 preferred shares. Further details in this regard can be found on our website at www.henkel.com/ir

In accordance with the Declaration of Compliance, the following details are reported in relation to notifiable shareholdings: The aggregate holdings of the members of the Supervisory Board and of the members of the Shareholders' Committee exceed in each case 1 percent of the shares issued by the company. The members of the Management Board together hold less than 1 percent of the shares issued by the company.

The corresponding declarations of compliance together with the reasons for deviations from recommendations can be found on our website at www.henkel.com/ir

II. Remuneration report

This remuneration report provides an outline of the compensation system for the Management Board, Henkel Management AG as the Personally Liable Partner, the Supervisory Board and the Shareholders' Committee of Henkel AG & Co. KGaA, and the Supervisory Board of Henkel Management AG; it also explains the level and structure of the remuneration paid.

This remuneration report takes into account the recommendations of the German Corporate Governance Code and contains all the disclosures and explanations required pursuant to Section 285 sentence 1 no. 9, Section 289 (2) no. 5, Section 314 (1) no. 6 and Section 315 (2) no. 4 of the German Commercial Code [HGB]. The associated information has not therefore been additionally disclosed in the notes to the consolidated financial statements at the back of this Annual Report.

1. Remuneration of the Management Board

The remuneration system described in the following, which meets the requirements of the Act on the Appropriateness of Management Board Remuneration [VorstAG] and was approved by the 2010 Annual General Meeting of shareholders of Henkel AG & Co. KGaA with a majority of 99.93 percent of the votes cast, applies uniformly as from fiscal 2010 with respect to the compensation payable to all members of the Management Board regardless of the duration of their individual executive contracts or previous, now superseded regulations.

Regulation, structure and amounts

The compensation for members of the Management Board of Henkel Management AG is regulated by the Supervisory Board of Henkel Management AG in consultation with the Human Resources Subcommittee of the Shareholders' Committee. The Supervisory Board of Henkel Management AG is comprised of three members of the Shareholders' Committee.

The structure and amounts of the emoluments accruing to the Management Board are aligned to the size and international activities of the corporation, its economic and financial position, its performance and future prospects, the normal levels of remuneration encountered in comparable companies and also the general compensation structure within the Henkel organization. The compensation package is further determined on the basis of the functions, responsibilities and performance of the individual executives and the performance of the Management Board as a whole. The variable annual remuneration components have been devised such that they take into account both positive and negative developments. The overall remuneration mix is designed to be internationally competitive while also providing an incentive for ongoing business development and a sustainable increase in shareholder value within a dynamic operating environment. The Supervisory Board of Henkel Management AG regularly reviews the compensation arrangements applied to the Management Board.

The remuneration of the members of the Management Board is based on a so-called target compensation amount (total remunerations excluding other ancillary emoluments and pension entitlements) which accrues to a member of the Management Board in the event of 100 percent achievement of the underlying performance targets, this "at-target" amount coming in at around 2.1 million euros in total per financial year, assuming reasonable similarity of the range of responsibilities involved. Of this target compensation, around 30 percent is in fixed salary, some 35 percent is performance-related over the short term and about 35 percent is performance-related over the long term. In addition, the Supervisory Board may, at its discretion, grant a special payment in recognition of exceptional achievements.

Remuneration structure

Fixed salary: 30 percent	Short-term components: 35 percent	Long-term components: 35 percent
	35 percentage points in variable annual remuneration (cash component)	25 percentage points in variable annual remuneration (own investment in Henkel preferred shares)
		10 percentage points in long-term incentive

This target compensation amount is supplemented by other emoluments and pension benefits. The components in detail:

Fixed salary
The annual non-performance-related fixed salary accounts for around 30 percent of the target compensation amount. It is paid in twelve monthly installments. The amount paid reflects both the function and responsibilities of the position and relevant market conditions.

Variable annual remuneration
Overall, the variable annual remuneration accounts for around 60 percent of the target compensation amount. The variable annual remuneration is made up of annual performance-related components which account for around 35 percent of the target compensation amount, and a long-term variable incentive which accounts for around 25 percent of the target compensation amount and takes the form of an investment by the recipient (own investment) in Henkel preferred shares with a minimum vesting period of three years.

Determination of variable annual remuneration
The performance criteria governing the variable annual remuneration are primarily return on capital employed (ROCE) and earnings per preferred share (EPS) in the relevant fiscal year, adjusted in each case for exceptional items. The application of these performance parameters ensures that profitable growth is duly rewarded by Henkel. The further factors used in establishing the variable annual remuneration payable to the Management Board members are: the Group results and the results of the relevant business sector or corporate function, the quality of management demonstrated in those functions, and the individual contribution made by the Management Board member concerned.

The target amount is adjusted on the basis of a performance factor related to the degree of target achievement. In determining the variable annual remuneration, the Supervisory Board of Henkel Management AG also takes into due account the apparent sustainability of the economic success, and the performance levels of the Management Board members.

Variable annual remuneration is also subject to an overall cap, with the result that the amount paid may only range between 0 percent and 250 percent of the target amount.

Short-term and long-term components of the variable annual remuneration
The variable annual remuneration is paid annually in arrears once the corporation's annual financial statements have been approved by the Annual General Meeting. Of the variable annual remuneration, around 60 percent is paid in cash, which in turn corresponds to a proportion of the target compensation of around 35 percent. For the remaining 40 percent – corresponding to 25 percent of the target compensation – the members of the Management Board acquire Henkel preferred shares (own investment) at the price prevailing at the time of acquisition. These shares are placed in a blocked custody account with a three-year drawing restriction. This own investment ensures that the members of the Management Board participate through a portion of their compensation in the long-term performance of the corporation.

Therefore, around 35 percent of the target compensation amount is short-term performance-related and – due to the own investment portion and the long-term incentive described below – a further 35 percent is aligned to components of a long-term performance-related nature.

Long-term incentive (LTI)
The long-term incentive, which accounts for 10 percent of the target compensation amount, is a variable cash payment based on the long-term performance of the corporation, the amount payable being dependent on the future increase registered in earnings per preferred share (EPS) over three consecutive years (the performance period). Together with the recipient's own investment from the variable annual remuneration, performance-related components aligned to the long term make up 35 percent of the target compensation amount.

On completion of the performance period, the degree of target achievement is ascertained by the Supervisory Board of Henkel Management AG on the basis of the increase in EPS achieved. The amounts included in the calculation of the increase are, in each case, the earnings per preferred share adjusted for exceptional items, as disclosed in the certified and approved consolidated financial statements of the relevant financial years.

Depending on the level of target achievement ascertained by the Supervisory Board of Henkel Management AG, the target amount is adjusted by a performance multiplier. The long-term incentive is also subject to an overall cap, with the result that the amount paid may only range between 0 percent and 250 percent of the target amount.

Pension benefits

The retirement pension for members joining the Management Board of the former Henkel KGaA before January 1, 2005, amounts to a certain percentage of the last paid fixed salary (defined benefit).

Effective January 1, 2005, we changed the pension entitlement for new members of the Management Board to a defined contribution scheme. Once a covered event occurs, the beneficiaries receive a superannuation lump-sum payment combined with a continuing basic annuity. The superannuation lump-sum payment comprises the total of annual contributions calculated on the basis of a certain percentage of the target compensation amount, this percentage being the same for all members of the Management Board. The annual contributions depend to a certain degree on developments in the actual total cash compensation paid in the financial year in question. Any vested pension rights earned within the corporation prior to the executive's joining the Management Board are taken into account as start-up units. The defined contribution pension system ensures appropriate retirement and welfare benefits while also incorporating a performance-related element.

An entitlement to pension and welfare benefits arises on retirement, on termination of the employment relationship on or after attainment of the statutory retirement age, or in the event of incapacity for work. If a member of the Management Board (executive) receives no pension benefits prior to their death, the superannuation lump sum accumulated up to time of death is paid out to the surviving spouse or surviving children. In addition, the executive's surviving spouse receives pension payments amounting to 60 percent and each dependant child benefit payments amounting to 15 percent – up to a maximum of 100 percent for all beneficiaries – of the executive's pension entitlement. The surviving child's benefit is generally paid until the child's 18th birthday or, if longer, until completion of their professional training, but only up to their 27th birthday.

Other emoluments

The members of the Management Board also receive other emoluments in the form of benefits arising out of standard commercial insurance policies and the provision of a company car.

Other regulatory provisions

In the event of retirement being taken by members of the Management Board who were first appointed prior to 2009, they are entitled to continued payment of their fixed salary for a further six months, but not beyond the month of their 65th birthday.

In the event of a member's position on the Management Board being terminated without good cause or reason, the executive contract provides for a severance settlement amounting to the remuneration for the remaining contractual term in the form of a discounted lump-sum payment. Since the 2008 AGM, however, severance payments have been limited to two years' compensation (severance payment cap) with respect to newly concluded contracts of employment or contract extensions of more than two years. Such severance settlements must not, however, cover more than the remuneration payable for the remaining period of the executive contract. In addition, the executive contracts include a post-contractual non-competition clause with a term of up to two years. The associated discretionary payment can be up to 50 percent of annual compensation after allowing for any severance payments and earnings from any new extra-contractual activities. No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

The corporation maintains on behalf of members of the corporate management bodies and employees of Henkel a third-party group insurance policy (D&O insurance) protecting against consequential loss, which policy also covers members of the Management Board. For members of the Management Board there is an own-risk deductible amounting to 10 percent per loss event up to

Structure of Management Board remuneration

in euros		Fixed salary	Short-term component of variable annual remuneration	Long-term remuneration components: Long-term component of variable annual remuneration	Long-term remuneration components: Long-term incentive	Other emoluments	Total remuneration
Total	**2011**	**3,774,500**	**7,854,368**	**5,236,245**	**1,258,142**	**223,936**	**18,347,191**
		20.6 %	*42.8 %*	*28.5 %*	*6.9 %*	*1.2 %*	*100.0 %*
Total	2010	3,531,000	6,121,615	4,081,075	963,000	132,250	14,828,940
		23.8 %	*41.2 %*	*27.6 %*	*6.5 %*	*0.9 %*	*100.0 %*

a maximum of one-and-a-half times their fixed salary for loss events occurring within a financial year.

Remuneration for 2011

The total compensation paid to members of the Management Board for the performance of their duties for and on behalf of Henkel AG & Co. KGaA and its subsidiaries during the year under review, including the cumulative savings reserve for Special Incentive 2012, amounted to 21,992,191 euros (previous year: 18,297,607 euros including severance compensation payments). Of the total cash emoluments of 17,089,049 euros (previous year: 13,865,940 euros) paid in respect of 2011, 3,774,500 euros was in fixed salary (previous year: 3,531,000 euros), 13,090,613 euros for the STI (previous year: 10,202,690 euros) and 223,936 euros in other emoluments (previous year: 132,250 euros). Also included in the total compensation is the long-term incentive granted for 2011 which – depending on the achievement of the performance targets – will only become payable in 2014. It is a legal requirement that a value be disclosed in the year of grant. This value is determined on the basis of an "at target" calculation, i.e. assuming the achievement of an increase in EPS over the performance period of 30 percent, giving an imputed amount of 1,258,142 euros (previous year: 963,000 euros).

Management Board remuneration

in euros		Cash components: Fixed salary	Cash components: Variable annual remuneration	Cash components: Other emoluments	Total cash emoluments	Value of long-term incentive[1]	Total remuneration
Kasper Rorsted	2011	963,000	3,423,549	87,391	4,473,940	321,000	4,794,940
	2010	*963,000*	*2,834,370*	*42,078*	*3,839,448*	*321,000*	*4,160,448*
Jan-Dirk Auris (since Jan. 1, 2011)	2011	642,000	2,199,033	57,189	2,898,222	214,000	3,112,222
	2010	–	–	–	–	–	–
Thomas Geitner[2] (until Dec. 31, 2010)	2011	–	–	–	–	–	–
	2010	*642,000*	*1,819,580*	*19,093*	*2,480,673*	–	*2,480,673*
Kathrin Menges (since Oct. 1, 2011)	2011	136,500	482,669	3,033	622,202	45,475	667,677
	2010	–	–	–	–	–	–
Bruno Piacenza (since Jan. 1, 2011)	2011	642,000	2,199,033	28,472	2,869,505	214,000	3,083,505
	2010	–	–	–	–	–	–
Dr. Friedrich Stara (until Feb. 28, 2011)	2011	107,000	308,263	2,466	417,729	35,667	453,396
	2010	*642,000*	*1,849,580*	*21,337*	*2,512,917*	*214,000*	*2,726,917*
Dr. Lothar Steinebach	2011	642,000	2,239,033	24,327	2,905,360	214,000	3,119,360
	2010	*642,000*	*1,849,580*	*25,846*	*2,517,426*	*214,000*	*2,731,426*
Hans Van Bylen	2011	642,000	2,239,033	21,058	2,902,091	214,000	3,116,091
	2010	*642,000*	*1,849,580*	*23,896*	*2,515,476*	*214,000*	*2,729,476*
Total	**2011**	**3,774,500**	**13,090,613**	**223,936**	**17,089,049**	**1,258,142**	**18,347,191**
	2010	*3,531,000*	*10,202,690*	*132,250*	*13,865,940*	*963,000*	*14,828,940*

[1] 2011 LTI payout in 2014; these figures will only be attained in the event of EPS increasing by 30 percent in the performance period.
[2] LTI for 2010 included in Thomas Geitner's severance package.

Defined benefit pension

in euros	Retirement pension p.a. on onset of pension as of reporting date	Change in pension provisions for 2011
Dr. Lothar Steinebach	398,040	46,907

Defined contribution pension

	Superannuation lump sum		Basic annuity	
in euros	Total lump sum	Addition to lump sum 2011	Total basic annuity (p.a.)	Addition to basic annuity 2011
Kasper Rorsted	2,490,300	543,645	1,681	177
Jan-Dirk Auris	104,220	104,220	229	229
Kathrin Menges	21,735	21,735	48	48
Bruno Piacenza	104,220	104,220	201	201
Dr. Friedrich Stara	1,534,695	59,775	762	17
Hans Van Bylen	1,830,914	358,650	1,528	169

The remuneration of the individual members of the Management Board for the year under review is indicated in the table on the previous page, together with a breakdown according to the individual components referred to above.

No member of the Management Board was granted by the company non-standard benefits in the event of premature termination of their tenure, nor were any such entitlements or arrangements modified. No member of the Management Board was pledged payments from third parties in respect of their duties as executives of the company, nor were any such payments granted in the year under review.

Special Incentive 2012

In order to underpin Henkel's strategic priorities and the ambitious 2012 financial targets announced in this regard, the Supervisory Board of Henkel Management AG has, in consultation with and on the recommendation of the HR Subcommittee of the Shareholders' Committee, resolved that an additional cash bonus should be payable to the members of the Management Board on the primary condition that the adjusted return on sales for 2012 is at least 14 percent (Special Incentive 2012). Achievement of the governing thresholds (indicated below) shall be based on the certified and approved consolidated financial statements, with relevant margins having been adjusted for exceptional items. The volume of the Special Incentive 2012 is 50 percent of the ensuing variable annual remuneration for 2012.

The special incentive will be paid as follows: Subject to achievement of an adjusted return on sales of at least 14 percent in 2012, 60 percent of the special incentive will be paid out following the 2013 AGM. The remaining 40 percent will be paid out following the 2014 AGM provided that, in 2013, the adjusted return on sales achieved amounts to at least 13.8 percent. This staggered arrangement adequately satisfies the criterion of sustainable performance improvement.

Because this represents a conditional claim to deferred payment, a savings reserve has to be created for the Special Incentive, which is then amortized in subsequent years. The additions to the savings reserve made for qualifying members of the Management Board are indicated in the following table:

Special Incentive 2012

in euros	Addition to savings reserve in 2011
Kasper Rorsted	702,000
Jan-Dirk Auris [1]	800,000
Kathrin Menges [2]	425,000
Bruno Piacenza [1]	800,000
Dr. Friedrich Stara [3]	182,000
Dr. Lothar Steinebach [4]	268,000
Hans Van Bylen	468,000
Total	**3,645,000**

[1] Member of the Management Board since Jan. 1, 2011; first addition made in 2011.
[2] Member of the Management Board since Oct. 1, 2011; first addition made in 2011.
[3] Member of the Management Board until Feb. 28, 2011.
[4] Member of the Management Board until June 30, 2012.

Pension benefits

The pension benefits accruing to the members of the former and latter Management Boards as of the reporting date and also the contributions to the pension scheme made in 2011 are shown in the tables on the previous page.

A total of 80,208,248 euros (previous year: 78,758,710 euros) has been provided for pension obligations to former members of the former and latter Management Boards and the former directors of the legal predecessor of the company, and their surviving dependants. Amounts paid to such recipients during the year under review totaled 6,332,108 euros (previous year: 6,430,106 euros).

2. Remuneration of Henkel Management AG for assumption of liability, and reimbursement of expenses to same

For assumption of the liability and management of the businesses of the corporation, Henkel Management AG in its function as Personally Liable Partner shall receive an annual payment of 50,000 euros (= 5 percent of its capital stock) plus any value-added tax (VAT) due, said fee being payable irrespective of any profit or loss made.

Henkel Management AG may also claim reimbursement from or payment by the corporation of all expenses incurred in connection with the management of the latter's businesses including the emoluments and pensions paid to its management bodies.

3. Remuneration of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA

Regulation, structure and amounts

The remuneration for the Supervisory Board and the Shareholders' Committee has been approved in General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association.

The structure and amount of the remunerations are commensurate with the size of the corporation, its economic success and the functions performed by the Supervisory Board and the Shareholders' Committee respectively.

The remuneration package comprises three components: a fixed fee, a variable dividend-related bonus and an annual, variable, performance-related, long-term incentive (LTI) based on the company's performance. The components in detail:

Fixed fee

Each member of the Supervisory Board and of the Shareholders' Committee receives a fixed fee of 20,000 euros and 50,000 euros per year respectively. The higher fixed fee in the latter case is due to the fact that, as required by the Articles of Association, the Shareholders' Committee is involved in business management activities.

Dividend bonus

Each member of the Supervisory Board and of the Shareholders' Committee further receives an annual bonus of 2,400 euros for every full 0.02 euros by which the preferred dividend paid out for the prior year exceeds 0.25 euros.

Long term incentive

As a long-term incentive, each member of the Supervisory Board and of the Shareholders' Committee receives an additional cash payment each year, the amount of which depends on the increase in earnings per preferred share (EPS) over a three-year reference period. The EPS of the financial year preceding the year of payment is compared to the EPS of the second financial year following the year of payment. If the increase is at least 15 percent, an amount of 600 euros is paid for each full percentage point of the total achieved increase. If the increase reaches a minimum of 21 percent, the amount paid per percentage point is 700 euros, and if the increase is a minimum of 30 percent, the amount paid per percentage point is 800 euros. The calculation is based on the certified and approved consolidated financial statements of the respective financial years, with EPS having been adjusted for exceptional items.

The total of the dividend bonus and the long-term incentive is, however, limited to 50,000 euros (cap).

Remuneration for chairpersons/vice-chairpersons/(sub)committee members

The Chairperson of the Supervisory Board and the Chairperson of the Shareholders' Committee each receives double the amount, and the Vice-Chairperson in each case one-and-a-half times the amount accruing to an ordinary member.

Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each additionally receive remuneration equivalent to the initial amount; if they are the Chairperson of one or more subcommittees, they receive double.

Members of the Supervisory Board who are also members of the Audit Committee shall each additionally receive a fee of 50 percent of the cash amount accruing to a member of the Supervisory Board (fixed fee plus dividend bonus); the Chairperson of the Audit Committee receives an additional fee of 100 percent of this amount. Activity in the Nominations Committee is not remunerated separately.

Other regulatory provisions

The members of the Supervisory Board or a committee receive an attendance fee amounting to 500 euros for each meeting in which they participate. If several meetings take place on one day, the attendance fee shall only be paid once. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses arising from the pursuit of their mandates. The members of the Supervisory Board are also reimbursed the value-added tax (VAT) payable on their total remunerations and reimbursed expenses.

The corporation maintains on behalf of members of the corporate management bodies and employees of Henkel a third-party group insurance policy (D&O insurance) protecting against consequential loss, which policy also covers members of the Supervisory Board and of the Shareholders' Committee. For members of the Supervisory Board and Shareholders' Committee there is an own-risk deductible amounting to 10 percent per loss event up to a maximum of one-and-a-half times their fixed annual fee for loss events occurring within a financial year.

Remuneration for 2011

Total remuneration paid to the members of the Supervisory Board for the year under review (fixed fee, dividend bonus, attendance fee, components payable for committee activity and long-term incentive for 2011) amounted to 1,515,500 euros plus VAT (previous year: 1,516,000 euros plus VAT). Of the total cash emoluments paid for 2011 (fixed fee, dividend bonus, components payable for committee activity and attendance fees) amounting to 1,515,500 euros plus VAT of 246,620 euros (previous year: 1,516,000 euros plus VAT of 247,000 euros), 350,000 euros was in fixed fees, 875,000 euros in dividend bonus, 34,500 euros in attendance fees and 256,000 euros in components payable for committee activity (including relevant additional attendance fees).

Total remuneration paid to the members of the Shareholders' Committee for the year under review (fixed fee, dividend bonus, remuneration payable for subcommittee activity and long-term incentive for 2011) amounted to 2,295,205 euros (previous year: 2,209,180 euros). Of the total cash emoluments paid for 2011 (fixed fee and dividend bonus, including the above-mentioned components payable for subcommittee activity) amounting to 2,295,205 euros (previous year: 2,209,180 euros), 561,301 euros was in fixed fee, 561,301 euros in dividend bonus and 1,172,603 euros in components payable for subcommittee activity (excluding the LTI amount due).

In accordance with the proposal put forward by the Management Board, the dividend bonus in each case was based on a dividend of 0.80 euros per preferred share.

Pursuant to Article 17 (3) and Article 33 (3) of the Articles of Association, the above dividend would yield a dividend bonus of 64,800 euros per member. However, as according to Article 17 (5) and Article 33 (5) of the Articles of Association, the amount of dividend bonus and LTI payable to a simple member cannot exceed 50,000 euros (cap) in a financial year, the dividend bonus for the year under review was capped at 50,000 euros and there will be no LTI payment for 2011.

In the year under review, no compensation or benefits were paid or granted for personally performed services, including in particular advisory or intermediation services.

The emoluments of the individual members of the Supervisory Board and of the Shareholders' Committee, broken down according to the above-mentioned components, are presented in the tables on the following pages.

4. Remuneration of the Supervisory Board of Henkel Management AG

According to Article 14 of the Articles of Association of Henkel Management AG, the members of the Supervisory Board of Henkel Management AG are each entitled to receive an annual fee of 10,000 euros. However, those members of said Supervisory Board who are also and simultaneously members of the Supervisory Board or the Shareholders' Committee of Henkel AG & Co. KGaA do not receive this fee.

Supervisory Board remuneration

in euros		Cash components: Fixed fee	Dividend bonus	Atten-dance fee	Fee for committee activity[1]	Total cash emolu-ments	Value of long-term incentive[2]	Total remuner-ation[3]
Dr. Simone Bagel-Trah[4], Chair	2011	40,000	100,000	2,000	36,500	178,500	–	178,500
	2010	*40,000*	*100,000*	*2,500*	*36,500*	*179,000*	*–*	*179,000*
Winfried Zander[4], Vice-chair	2011	30,000	75,000	2,000	37,000	144,000	–	144,000
	2010	*30,000*	*75,000*	*2,500*	*36,500*	*144,000*	*–*	*144,000*
Jutta Bernicke	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*20,000*	*50,000*	*2,500*	*–*	*72,500*	*–*	*72,500*
Dr. Kaspar von Braun (since April 19, 2010)	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*14,082*	*35,205*	*1,000*	*–*	*50,287*	*–*	*50,287*
Johann-Christoph Frey	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*20,000*	*50,000*	*2,000*	*–*	*72,000*	*–*	*72,000*
Birgit Helten-Kindlein[4]	2011	20,000	50,000	2,000	37,000	109,000	–	109,000
	2010	*20,000*	*50,000*	*2,500*	*36,500*	*109,000*	*–*	*109,000*
Bernd Hinz (until July 31, 2010)	2011	–	–	–	–	–	–	–
	2010	*11,616*	*29,041*	*1,500*	*–*	*42,157*	*–*	*42,157*
Prof. Dr. Michael Kaschke	2011	20,000	50,000	1,500	–	71,500	–	71,500
	2010	*20,000*	*50,000*	*2,000*	*–*	*72,000*	*–*	*72,000*
Thomas Manchot	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*20,000*	*50,000*	*2,000*	*–*	*72,000*	*–*	*72,000*
Mayc Nienhaus	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*20,000*	*50,000*	*2,500*	*–*	*72,500*	*–*	*72,500*
Thierry Paternot	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*20,000*	*50,000*	*2,000*	*–*	*72,000*	*–*	*72,000*
Andrea Pichottka	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*20,000*	*50,000*	*2,500*	*–*	*72,500*	*–*	*72,500*
Prof. Dr. Theo Siegert[4]	2011	20,000	50,000	2,000	36,500	108,500	–	108,500
	2010	*20,000*	*50,000*	*2,500*	*36,500*	*109,000*	*–*	*109,000*
Edgar Topsch (since Aug. 1, 2010)	2011	20,000	50,000	2,500	–	72,500	–	72,500
	2010	*8,384*	*20,959*	*1,000*	*–*	*30,343*	*–*	*30,343*
Konstantin von Unger (until April 18, 2010)	2011	–	–	–	–	–	–	–
	2010	*5,918*	*14,795*	*1,000*	*–*	*21,713*	*–*	*21,713*
Michael Vassiliadis[4]	2011	20,000	50,000	2,000	37,000	109,000	–	109,000
	2010	*20,000*	*50,000*	*2,500*	*36,500*	*109,000*	*–*	*109,000*
Dr. Bernhard Walter[4]	2011	20,000	50,000	1,500	72,000	143,500	–	143,500
	2010	*20,000*	*50,000*	*2,000*	*71,500*	*143,500*	*–*	*143,500*
Ulf Wentzien (until Dec. 31, 2011)	2011	20,000	50,000	1,500	–	71,500	–	71,500
	2010	*20,000*	*50,000*	*2,500*	*–*	*72,500*	*–*	*72,500*
Total	2011	350,000	875,000	34,500	256,000	1,515,500	–	1,515,500
	2010	*350,000*	*875,000*	*37,000*	*254,000*	*1,516,000*	*–*	*1,516,000*

[1] Fee for service on the Audit Committee; there is no separate fee payable for service on the Nominations Committee.
[2] The dividend bonus and LTI for a reference year is limited to 50,000 euros (cap) for a simple member. Therefore, the dividend bonus of 64,800 euros that mathematically results from a dividend of 0.80 euros per preferred share has been reduced to 50,000 euros. With the cap coming into play for reference year 2011, there is no LTI payable, hence the absence of an LTI figure.
[3] Figures do not include VAT.
[4] Member of the Audit Committee chaired by Dr. Bernhard Walter.

As the members of the Supervisory Board of Henkel Management AG are also members of the Shareholders' Committee, no fee was paid in respect of this Supervisory Board in the year under review.

Shareholders' Committee remuneration

in euros		Cash components: Fixed fee	Cash components: Dividend bonus	Cash components: Fee for sub-committee activity[1]	Total cash emolu-ments	Value of long-term incentive[2]	Total remuner-ation
Dr. Simone Bagel-Trah, Chair (Chair HR Subcommittee)	2011	100,000	100,000	200,000	400,000	–	400,000
	2010	*100,000*	*100,000*	*200,000*	*400,000*	–	*400,000*
Dr. Christoph Henkel, Vice-chair (Chair Finance Subcommittee)	2011	75,000	75,000	200,000	350,000	–	350,000
	2010	*75,000*	*75,000*	*200,000*	*350,000*	–	*350,000*
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Boris Canessa (Member HR Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Stefan Hamelmann (Vice-chair Finance Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Dr. Ulrich Hartmann (until April 18, 2010) (Member Finance Subcommittee)	2011	–	–	–	–	–	–
	2010	*14,795*	*14,795*	*29,590*	*59,180*	–	*59,180*
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Dr. Norbert Reithofer (since April 11, 2010) (Member Finance Subcommittee)	2011	36,301	36,301	72,603	145,205	–	145,205
	2010	–	–	–	–	–	–
Konstantin von Unger (Vice-chair HR Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Karel Vuursteen (Member HR Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Werner Wenning (Member HR Subcommittee)	2011	50,000	50,000	100,000	200,000	–	200,000
	2010	*50,000*	*50,000*	*100,000*	*200,000*	–	*200,000*
Total	2011	561,301	561,301	1,172,603	2,295,205	–	2,295,205
	2010	*539,795*	*539,795*	*1,129,590*	*2,209,180*	–	*2,209,180*

[1] Proportional fixed fee and dividend bonus.
[2] The dividend bonus and LTI for a reference year is limited to 50,000 euros (cap) for a simple member. Therefore, the dividend bonus of 64,800 euros that mathematically results from a dividend of 0.80 euros per preferred share has been reduced to 50,000 euros. With the cap coming into play for reference year 2011, there is no LTI payable, hence the absence of an LTI figure.

Operational activities

Henkel's brands and technologies around the world

Overview

Henkel was founded in 1876. Consequently, the year under review marks the 135th in our corporate history. Today, Henkel employs more than 47,000 people worldwide, and we occupy globally leading market positions in the consumer and industrial businesses.

Organization and business sectors

Henkel AG & Co. KGaA is operationally active as well as being the parent company of the Henkel Group. It is responsible for defining and pursuing Henkel's corporate objectives and also for the management, control and stewardship of our Group-wide activities, including risk management and the allocation of resources. Henkel AG & Co. KGaA performs its tasks within the legal scope afforded to it as part of the Henkel Group, with the affiliated companies otherwise operating as legally independent entities.

Operational management and control is the responsibility of the Management Board of Henkel Management AG in its function as sole Personally Liable Partner. The Management Board is supported by corporate functions.

Henkel is organized into three business sectors:
- Laundry & Home Care
- Cosmetics/Toiletries
- Adhesive Technologies

Our product range in the Laundry & Home Care business sector comprises heavy-duty detergents, specialty detergents and cleaning products. The portfolio of the Cosmetics/Toiletries business sector encompasses hair cosmetics, products for body, skin and oral care, and products for the hair salon business. The Adhesive Technologies business sector offers decoration and renovation products, adhesive and correction products for home and office, building adhesives and industrial and structural adhesives, sealants and surface treatment products.

Our three business sectors are managed on the basis of globally operational strategic business units. These are supported by the corporate functions of Henkel AG & Co. KGaA in order to ensure optimum utilization of corporate network synergies. Implementation of the strategies at a country and regional level is the responsibility of the affiliated national companies. The executive bodies of these companies manage their businesses in line with the relevant statutory regulations, supplemented by their own articles of association, internal procedural rules and the principles incorporated in our globally applicable management standards, codes and guidelines.

Strategy and financial targets for 2012

We are continuing to expand our three business sectors Laundry & Home Care, Cosmetics/Toiletries and Adhesive Technologies, each of which offers a strong and balanced portfolio of activities capable of significant growth in a positive market environment and ensuring relative stability in a downturn, as was clearly demonstrated throughout 2009 to 2011. Already today, we enjoy leading positions in all three segments in the mature markets of Western Europe and North America, and also in our emerging markets, which we intend to further expand going forward. It is essential for us to maintain strong or at least expandable market positions in the countries in which we have a presence. Already today, we generate 42 percent of our total sales in our emerging markets. In 2004, the figure was just 26 percent.

42 %
of our sales generated in the emerging markets.

24 %
of sales achieved with our top brands Schwarzkopf, Loctite and Persil.

With our three growth-generating business sectors and the leading market positions we occupy, we have a strong basis for generating profitable growth in the future.

Strategic priorities and progress in fiscal 2011

In 2008, we set ourselves three strategic priorities:

Achieve our full business potential
For this, we have identified the following drivers:

1. **Portfolio optimization**
   Within the Laundry & Home Care business sector, we aim to increase our profitability in the mass categories such as heavy-duty detergents and hand-dishwashing products, and drive growth in the profitable specialty categories such as household cleaners and fabric softeners. In the Cosmetics/Toiletries business sector, we intend to further enhance profitability by strengthening our innovation leadership and expanding our top brands. Within the Adhesive Technologies business sector we want to improve our profitability in the automotive segment, drive growth in specialty applications and utilize our economies of scale with innovations in the industrial adhesives business. In addition, we intend to increase our investments in order to achieve disproportionate growth in the emerging markets. We also want to further increase our market shares in the mature markets.

2. **Focus on our top brands**
   Our focus is on fewer but stronger brands and further expansion of our strong regional and global brands. Brand awareness is to be further enhanced through extensive marketing investment and promotional activities. Our three top brands Schwarzkopf, Loctite and Persil already account for around 24 percent of our sales. Our objective is to grow organically faster with these and other top brands than Henkel overall, and therefore to further expand their share of total sales. At the same time, we are reducing the number of our brands by selling off or discontinuing the smaller and less important brands.

3. **Innovation and innovation rates**
   With innovation rates[1] of 41 percent in the Laundry & Home Care business sector, 43 percent at Cosmetics/Toiletries and around 30 percent at Adhesive Technologies, we count among the strongest innovators in our fields of competence. We are helped in this respect by the proximity we have to our consumers and customers, actively incorporating both audiences in our product development activities where appropriate. We have also made it our principle only to launch a new product onto the market if it has a positive effect on gross margin and makes a contribution to sustainable development in at least one of our six focal areas (see AR page 49).

4. **Operational excellence**
   In our purchasing activities, our aim is to create benefits through the further development of effective strategies. These include concentrating on fewer, more efficient suppliers and on procuring materials in lower-cost emerging countries. In production and our supply chain, our objective is to further optimize our production footprint. This will enable us to reduce the complexity of our structures and better utilize available capacities. We are also introducing improvements with respect to our administrative, selling and distribution expenses, by pooling within our shared service centers our standardized processes in the areas of finance, purchasing and human resources, plus certain activities from our business sectors, and by outsourcing non-core activities such as IT support. We expect such measures to yield further cost savings going forward.

[1] Percentage share of sales accounted for by new products launched onto the market in the last three years (five years for Adhesive Technologies).

Focus more on our customers

In order to place our customers right at the center of all we do, we have prioritized expanding our dialogue with them at the highest managerial level (top-to-top contacts), coupled with the further development of our customer partnership structures. Our aims are to establish a joint strategic approach to our markets, to expand services offering measurable added value for our customers, and to effectively leverage our own competences, such as our leadership in the field of sustainability.

Strengthen our global team

Our employees are our most important assets. With clear and unequivocal feedback, discernible rewards in recognition of individual performance, and tailored development plans, we ensure that our competent and motivated team can master the challenges with which they are confronted. We are keen to develop and promote our managers from within. At the same time, we are also aware of the need to bring in external talents, especially when their knowledge of their local markets is better than that of the established managerial staff within the company. Already today, there are people from more than 120 nations working for Henkel; and the proportion of female managers is around 30 percent worldwide, with the trend clearly rising. The diversity of our global team gives us a competitive advantage, one that we intend to further extend.

Progress in fiscal 2011

We made further substantial progress in the pursuit of our three strategic priorities in fiscal 2011. The salient advancements were as follows:

Achieve our full business potential

- Despite major challenges and uncertainties in the economic environment, all three of our business sectors achieved very good results.
- We have further expanded our shared service centers in Bratislava (Slovakia) and Manila (Philippines), and have opened a third in Mexico City (Mexico). In addition to increasing the level of usage of these facilities for corporate functions such as Finance, Purchasing and HR, we have also transferred to them a number of activities from our business sectors, for example aspects of market research and certain controlling functions.

Focus more on our customers

- We have further extended our partnerships with customers and regularly meet with their representatives at the highest management level in order to identify further possible joint projects.
- We have developed a new sustainability strategy with goals extending through to 2030.

Strengthen our global team

- Throughout Henkel, there have been numerous activities implemented in order to establish the new vision and values introduced in 2010. Together with their teams, all our line managers have examined the implementation of the measures agreed in 2010 as applicable to their spheres of responsibility, and are continuing to drive such activities forward.
- We have adapted our global short-term incentive on the basis of the globally standardized system developed in 2010 for differentiated assessment of the performance and development potential of our managerial staff.

Financial targets 2012

In 2008, we set ourselves financial targets for 2012 which we intend to achieve through diligent pursuit of our strategic priorities.

Financial targets 2012

Annual organic sales growth (average):
3–5 percent

Adjusted[1] return on sales (EBIT):
14 percent

Annual growth in adjusted earnings per preferred share (average):
> 10 percent

Despite major challenges and uncertainties in the economic environment, 2011 was a successful year for us: We achieved strong organic sales growth of 5.9 percent and succeeded in increasing adjusted return on sales by 0.7 percentage points to 13.0 percent. Adjusted earnings per preferred share came in at 3.14 euros, an increase of 11.3 percent above the level of 2010.

[1] Adjusted for one-time charges/gains and restructuring charges.

5 times
sector leader in the Dow Jones Sustainability Index (see AR page 26).

Following on from the successes of the year under review, we are very confident that we will achieve our 2012 financial targets.

Developments up to year-end 2011

	2010	2011
Organic sales growth	+7.0 %	+5.9 %
Organic sales growth, average *	**+1.8 %**	**+3.1 %**
Adjusted return on sales (EBIT)	**12.3 %**	**13.0 %**
Adjusted earnings per preferred share in euros	2.82	3.14
Growth	+47.6 %	+11.3 %
Average growth **	**+13.5 %**	**+12.8 %**

* Arithmetic mean 2009 through 2011.
** Compound annual growth rate (CAGR) 2008 through 2011.

In order to further promote achievement of our ambitious financial targets, a one-time payment (Special Incentive 2012) approximating to the value of the variable annual remuneration amount was put in place in 2010 for around 3,000 senior managerial staff of the Henkel Group (Management Circles 0 to IIb). This becomes payable on condition that the adjusted return on sales achieved in 2012 is at least 14 percent.

Sustainability strategy 2030

Our corporate value as the foundation

Commitment to leadership in sustainability is one of our core corporate values. Maintaining a balance between economic success, protection of the environment, and social responsibility has been fundamental to our corporate culture for decades. As pioneers, we aim to develop new solutions for sustainable development while continuing to shape our business responsibly and increase our economic success. This ambition encompasses all of our company's activities – along the entire value chain.

Achieving more with less

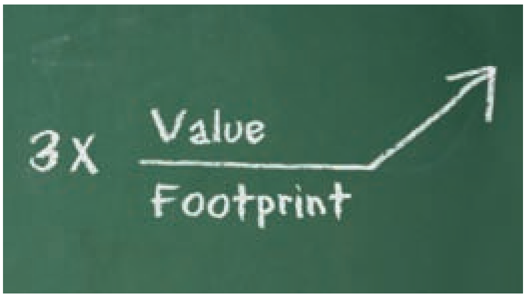
We are facing immense challenges: The global human footprint is already greater today than the planet's resources can bear. By the year 2050, the world's population is expected to grow to 9 billion. The accompanying acceleration in global economic activity will lead to rising consumption and resource depletion. The pressure on available resources will thus intensify in the coming decades. Since sacrificing quality of life and consumption is not a realistic solution in our view, we have adopted the Vision 2050 of the World Business Council for Sustainable Development (WBCSD) as the basis for our strategy: "In 2050, 9 billion people live well and within the resource limits of the planet." This translates the abstract principle of sustainable development into a concrete vision for society in 2050.

For us as a company, this means helping people to live well by generating value while using less resources and causing less emissions. This is the idea at the heart of our new sustainability strategy: Achieving more with less. We want to create more value – for our customers and consumers, for the communities we operate in, and for our company – while at the same time reducing our ecological footprint. To accomplish this, we need innovations, products and technologies that can enhance quality of life while using less input materials. Building on our decades of experience in sustainable development, we aim to work together with our suppliers, customers, and consumers to develop viable solutions for the future. By doing so, we will be contributing both to sustainable development and to our company's economic success.

Our goal for 2030: Triple our efficiency

Our long-term goal reflects the global challenges of sustainability. We will have to significantly improve our efficiency in order to reconcile people's desire to live well within the resource limits of the planet.

Therefore, within the next 20 years we want to triple the value we create through our business operations in relation to the ecological footprint of our products and services. We call this ambition of becoming three times more efficient "Factor 3." One way to achieve this is to triple the value we create while leaving the footprint at the



Our goal is to become three times more efficient by 2030. We call this "Factor 3." That means tripling the value we create through our business activities in relation to the ecological footprint made by our products and services.

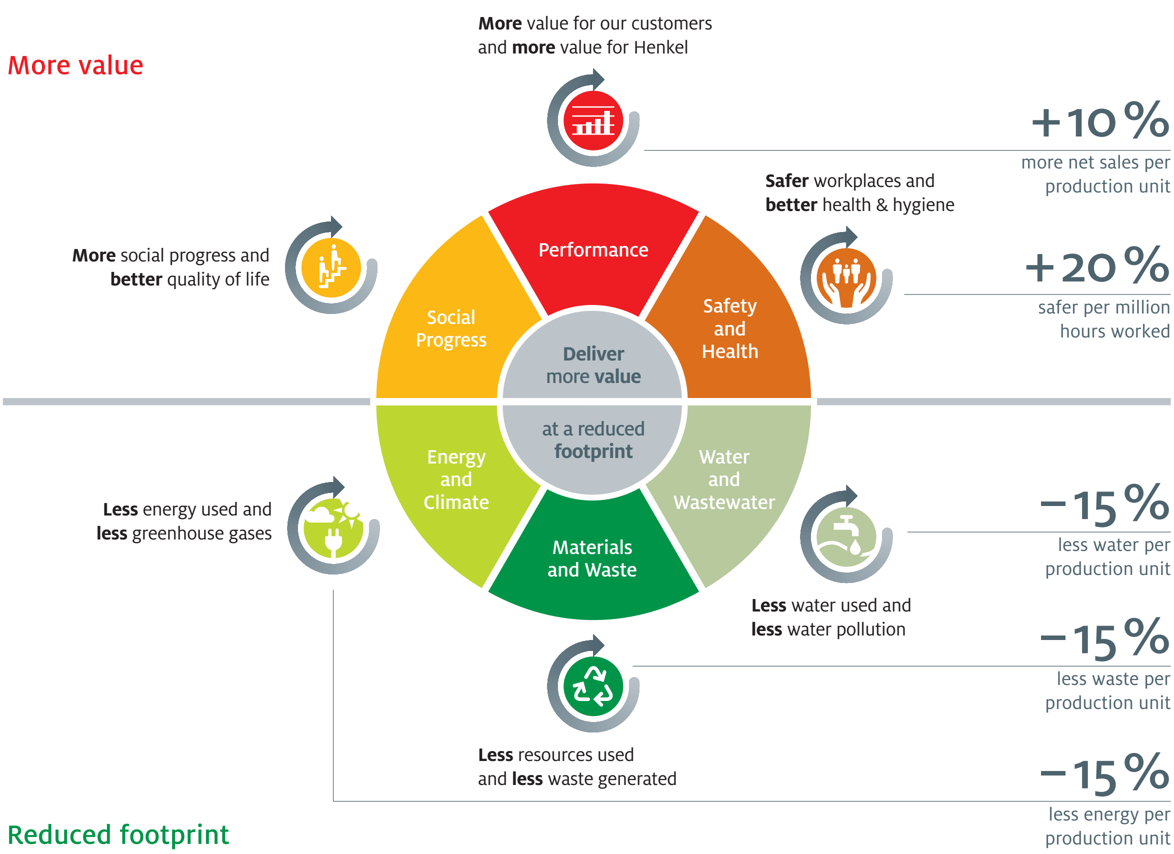
same level. Or we can reduce the ecological footprint to one third of today's level, achieving our "Factor 3" improvement in efficiency by delivering the same value.

To reach this ambitious 20-year goal, we will have to improve our efficiency by an average of 5 to 6 percent each year. We have therefore set concrete 5-year targets for our focal areas (see chart). By 2015, we intend to improve the relationship between the value we create and the ecological footprint of our business activity by 30 percent overall.

Our contributions in six focal areas

To successfully implement our strategy, we are concentrating on six focal areas of activity that reflect the challenges of sustainable development as they relate to our operations. In each of these focal areas, we drive progress along the entire value chain through our products and processes. With our new strategy, we have added a sixth focal area to the previous five, namely that of "Performance." This reflects not only our aims as a commercial enterprise, but also our core value contribution to society. At the same time, we have subdivided the focal areas into two dimensions: "more value" and "reduced footprint." Three focal areas therefore represent the value we want to deliver to our customers, shareholders and our company, for example in the form of enhanced occupational safety and contributions to social progress. The three other focal areas describe the way in which we want to reduce our ecological footprint, for instance through reduced water and energy consumption and less waste.

Our focal areas and company-wide targets for 2015



Detailed information and background reading on the subject of sustainability can be found in our Sustainability Report which is available in both printed and online form.

www.henkel.com/sustainabilityreport

Our approach for sustainable business processes
In order to successfully implement our strategy and reach our goal, both of these dimensions must be manifest in the minds and day-to-day actions of our more than 47,000 employees, and apparent in our business processes. We have defined three strategic principles to achieve this: products, partners, and people.

Our products deliver more value for our customers and consumers. We achieve this through innovative solutions and education, and through products that offer better performance with a smaller footprint, thus saving resources and reducing other negative environmental impacts.

Our partners are key to driving sustainability along our value chains and in all areas of business and life. We support them with our products and expertise. And we collaborate with selected vendors, so that they can supply us with raw materials that have an improved environmental footprint. At the other end of the chain, we help our customers and consumers to reduce their own environmental footprint.

Our people make the difference – through their dedication, skills and knowledge. They make their own contributions to sustainable development, both in their day-to-day business and as members of society. They interface with our customers and consumers, make innovation possible, develop successful strategies, and give our company its unique identity.

Organization
The Henkel Management Board bears overall responsibility for our sustainability strategy and objectives, and hence the pursuit thereof within the corporation. Henkel's Sustainability Council steers our global sustainability activities in collaboration with the individual business sectors and functions, and our regional and national affiliated companies.

Our understanding of socially responsible behavior has been specified and communicated to our employees throughout the entire Group in our Code of Corporate Sustainability and our Code of Conduct. From these codes are derived our more detailed internal standards governing safety, health and environmental protection, our social standards and our Group purchasing standards. Compliance with these rules and requirements is regularly monitored throughout the Group by internal audits performed at our production and administration sites, and also – increasingly – audits at our toll and contract manufacturers and logistics centers.

By joining the United Nations Global Compact in July 2003, we also publicly underscored our commitment to respect human rights and fundamental labor standards, to promote environmental protection and to work against all forms of corruption.

Stakeholder dialogue
Viable solutions promoting sustainability can only be developed in dialogue with all the relevant social groups. These include our employees, shareholders, customers, suppliers, civil authorities, politicians, associations, governmental and non-governmental organizations, academia and the public at large. We view interaction with our stakeholders as an opportunity to identify the needs of our different markets at an early stage and to define the directions which our activities should take. Our dialogue with various stakeholder groups enables us to access new ideas for our company, which flow continuously into our strategy development and reporting.

We deploy a wide range of communication instruments in order to meet the specific information requirements of our stakeholders, ranging from our own publications and technical articles to events and direct contact. More details and background reading on the subject of sustainability can be found in our SR Sustainability Report. With this, we document the high priority assigned to the pursuit of sustainable development by our company, at the same time satisfying the reporting obligations laid down in the United Nations Global Compact.

Further information, reports, background details and the latest news on sustainable development at Henkel can be found on our website:
www.henkel.com/sustainability

Value-based management and control system

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

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

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

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

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

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

Weighted average cost of capital (WACC)

	2011	from 2012
Risk-free interest rate	3.3 %	3.5 %
Market risk premium	4.5 %	4.5 %
Beta factor	0.8	0.8
Cost of equity after tax	**6.8 %**	**7.1 %**
Cost of debt capital before tax	4.1 %	4.7 %
Tax shield (30 %)	– 1.2 %	– 1.4 %
Cost of debt capital after tax	**2.9 %**	**3.3 %**
Share of equity [1] (peer group structure)	85 %	85 %
Share of debt capital [1] (peer group structure)	15 %	15 %
WACC after tax [2]	**6.5 %**	**6.5 %**
Tax rate	30 %	30 %
WACC before tax [2]	**9.0 %**	**9.5 %**

[1] At market values.
[2] Rounded.

WACC before tax by business sector

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

9.0 %
Group WACC before tax in fiscal 2011.

848 million euros

economic value added (EVA®) in 2011.

EVA® and ROCE

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

At Henkel, EVA® is calculated as follows:
EVA® = EBIT * – (Capital Employed x WACC).

In order to be better able to compare business units of varying size, we additionally apply return on capital employed, calculated as follows:
ROCE = EBIT * ÷ Capital Employed.

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

In fiscal 2011, the Henkel Group posted positive economic value added (EVA®) amounting to 848 million euros, an increase of 279 million euros (+49.0 percent) above the prior-year figure. This is attributable to both the very strong rise in operating profit and a decrease in capital employed. All our business sectors posted a positive EVA®. At Laundry & Home Care, the figure was 303 million euros, 5.7 percent above the prior-year level, resulting from a very strong reduction in capital employed. Cosmetics/Toiletries generated EVA® of 290 million euros, a major plus of 40.6 percent versus 2010 achieved thanks to a substantial increase in operating profit. At Adhesive Technologies, we increased our EVA® to 282 million euros, a rise of 209 million euros, due both to the significant improvement in operating profit and a reduction in capital employed compared to the previous year.

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

EVA® and ROCE [1]

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

[1] Calculated on the basis of units of 1,000 euros.
[2] Calculated on the basis of the different sector-specific WACC rates applied.
[3] Calculated on the basis of a WACC rate of 9.0 percent for the Henkel Group.
[4] Calculated on the basis of a WACC rate of 10.0 percent for the Henkel Group.

* Adjusted for goodwill impairment losses.

Statutory and regulatory situation

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

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

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

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

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

Business performance

World economy

Overview:
Global economic slow-down

Following the semi-recovery in 2010, the world economy [1] cooled down again in 2011. Global gross domestic product increased by 2.6 percent. While the emerging regions registered a rise of 5.4 percent, the industrialized countries exceeded the prior-year level by a mere 1.3 percent. Persistently high risks emanating from the debt crises in Europe and the USA, and the decline in growth in Asia resulting from the measures introduced to combat inflation, had an adverse effect on economic development and also increasingly dampened investor and private consumer confidence.

Developments in 2011:
Declining dynamism as the year progressed

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

Industry and consumption:
Further increase in industrial output

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

Regions:
Mature markets restrained,
emerging regions robust

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

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

kets of Eastern Europe, Asia (excluding Japan), Latin America and Africa/Middle East exhibited robust economic growth compared to the previous year. In Eastern Europe, economic recovery continued with growth of around 3 percent. Russia stood out as one of the more dynamic economies of the region, posting expansion of 4 percent. Latin America registered strong growth of about 5 percent. The emerging countries of Asia increased their economic output by around 7 percent, with India and China once again leading the way.

Raw material prices:
Strong increase across the board

The high demand for raw materials, particularly in the emerging countries of Asia, led to a substantial rise in the associated prices in the course of the year under review. Commodities subject to these price developments included crude oil, ethylene, propylene, palm kernel oil, paper and metals. At around 110 US dollars per barrel, for example, the average price for crude oil for the year was almost 30 dollars above the level of the previous year. Raw material prices stabilized at a high level during the second half of the year due to the general global decline in economic growth rates.

Currencies:
Euro in the throes of the European financial crisis

Taking the annual average for 2011, the euro appreciated slightly against the US dollar, from 1.33 to 1.39. However, there was no clear trend as the year progressed. At the beginning of 2011 the euro rose steadily, occasionally reaching levels above 1.46 US dollars around the middle of the year. By the end of the third quarter, however, the euro was again trending weaker, and at the end of the year it had hit a low of 1.29 US dollars, with the European debt crisis as the primary cause.

Developments in the exchange rates of currencies important to Henkel are indicated in the following table:

Average rates of exchange versus the euro

	2010	2011
Chinese yuan	8.98	**8.99**
Mexican peso	16.75	**17.31**
Polish zloty	4.00	**4.13**
Russian ruble	40.26	**40.91**
US dollar	1.33	**1.39**

Inflation:
Rise in global price levels

Global inflation has risen from just under 3 to 4 percent, due mainly to the strong increase in commodity prices. Consumer prices have risen in all regions, although developments were very mixed from one country to another. In North America and in Western Europe – and here particularly in Germany – inflation underwent a substantial rise. By contrast, developments in Japan were persistently deflationary. In China, inflation rose significantly, driven by strong growth coupled with high price increases, particularly for food products.

Unemployment:
Slight global decline to around 7 percent

In the industrialized regions, unemployment decreased slightly to 8 percent. In North America, the figure has remained high at around 9 percent. The labor market in Germany developed positively with the unemployment rate falling to just under 7 percent, noticeably below the prior-year figure. In the emerging regions, unemployment rates remained stable at about 7 percent. Around the world, unemployment decreased slightly to approximately 7 percent.

Developments by sector:
Slight increase in consumption

Growth in private consumer spending remained sluggish at around 3 percent. In the industrialized countries, consumers only spent 1 percent more in 2011 than in 2010. Consumers in North America increased their spend by about 2 percent. In Western Europe, consumer spending was only marginally above the prior-year level, with the rise coming primarily from Germany's increase of about 1 percent. The emerging regions exhibited a higher propensity to consume with a plus of around 5 percent, matching the overall rate of regional economic expansion.

Industry shows robust growth

With growth of 6 percent, industrial production continued to increase more rapidly than the economy as a whole. The primary drivers in this development were the export-dependent industries, and here particularly electrical and electronic engineering, the transport sector and metal processing, each of which saw output substantially rise, benefiting from the increase in investment activity in the industrialized nations, and brisk export activity.

However, developments in industrial production were very mixed at the regional level. Manufacturing in Western Europe and North America expanded by something over 4 percent. Asia's industrial output grew by around 8 percent. The contributions of the emerging countries of China, South Korea and India were particularly prominent in this regard, while Japanese manufacturing declined due to the natural and nuclear disasters suffered by that country.

Our important customer industries of transport and electronics saw production expand considerably, by around 7 percent. Strong growth was also generated in the automotive industry. Within the electronics sector, growth of relevance to us in basic products such as microchips and printed circuit boards was only slightly positive. Growth in the metals industry was a robust 8 percent. However, expansion in the consumer-related sectors such as the global packaging industry was sluggish, joining food products, beverages, paper and printing with growth in the lower single-digit range. After several years of decline, construction avoided contraction in 2011. While building activity in the emerging regions was extremely brisk, North America and Western Europe registered declines of 9 and 1 percent respectively.

Review of overall business performance

Henkel's business performance was influenced by the challenging market environment outlined above. In the course of the year, the rate of world economic growth slackened. Despite persistent threats such as the debt crises in Europe and the USA, the consequences of the political unrest in North Africa, the environmental disaster in Japan and the decline in growth in Asia, we achieved an organic sales increase of 5.9 percent, exceeding our guidance of 3 to 5 percent. In all our business sectors we continued to outpace our relevant markets. We also increased the share of sales accounted for by our emerging markets to 42 percent.

The prices for our total direct materials rose on our procurement markets in the course of the year, stabilizing at a high level during the second half. We were able to extensively mitigate the negative impact of this development, although not completely offset it, by introducing appropriate countermeasures such as increasing our own selling prices and implementing projects designed to achieve cost reductions in production and supply chain. Overall, adjusted[1] gross margin decreased by 1.3 percentage points to 45.8 percent.

Nevertheless, with an adjusted return on sales figure of 13.0 percent, we were able to fulfill our guidance, improving our profitability compared to the previous year by 0.7 percentage points – a significant step in the direction of the 14 percent targeted for 2012. Reflected in these results are the savings successfully achieved from our accelerated initiatives to align our structures to our markets and customers. The expansion of our shared service centers with the opening of a third site in Mexico City further reduced the overheads component in our costs.

We continued optimizing our portfolio through the sale of non-core businesses in 2011: In the second quarter, we disposed of our branded consumer goods business in India and also the roofing membrane business operated by Adhesive Technologies. We have reduced the complexity of our brands portfolio from an original basket of over 1,000 to a current total of about 400. This enables us to focus more strongly on our top brands and fully exploit the opportunities available to us in our core businesses.

[1] Adjusted for one-time charges/gains and restructuring charges.

In response to our continuing good business performance and our improved financial profile, we also regained our target ratings of “A flat” (Standard & Poor’s) and “A2” (Moody’s) in the second quarter. Our financial ratios have improved significantly: Thanks to strong cash flows from operating activities, the net debt of the Henkel Group decreased to 1.7 billion euros (–28 percent) in the course of the year. We also increased our operating debt coverage from 71 to 83 percent. Overall, we have a solid long-term financing structure and sufficient liquidity reserves for us to exploit opportunities in value-creating external growth, provided that these do not jeopardize our regained target ratings in the long term.

As a front-runner in sustainability, we intend to introduce new solutions to meet the challenges of sustainable development and to further develop our business by generating economic success based on responsibility. Having achieved our sustainability targets for 2012 ahead of schedule in 2010, we extended our sustainability strategy in the year under review through to the year 2030 with the adoption of our “Factor 3” objective: Within the next 20 years, we want to triple the value that we create with our business activities in relation to the ecological footprint caused by our products and services.

The highly gratifying results of fiscal 2011 took us a further important step closer to achieving our ambitious financial targets for 2012.

Sales and profits

In a challenging economic environment, Henkel Group sales grew to 15,605 million euros in 2011, a rise of 3.4 percent versus prior year. After adjusting for foreign exchange, sales increased by 5.3 percent. In organic terms (i.e. after adjusting for foreign exchange and acquisitions/divestments), sales improved by a high 5.9 percent. Half of this rise was attributable to the increase in our selling prices, particularly in the Adhesive Technologies business sector, reflected in a price effect of 3.0 percent.

In the course of the financial year, the rate of our revenue increase declined somewhat against the backdrop of slowing world economic expansion. While organic growth in the first half of the year came in at 6.7 percent, in the second half it eased, albeit to a still substantial 5.2 percent.

Sales

in million euros	
2007	13,074
2008	14,131
2009	13,573
2010	15,092
2011	15,605

Sales by business sector *

in million euros	
Laundry & Home Care	
2010	4,319
2011	4,304
Cosmetics/Toiletries	
2010	3,269
2011	3,399
Adhesive Technologies	
2010	7,306
2011	7,746

* Excluding Corporate.

Sales development[1]

in percent	2011
Change versus previous year	3.4
Foreign exchange	–1.9
Adjusted for foreign exchange	5.3
Acquisitions/divestments	–0.6
Organic	5.9
of which price	3.0
of which volume	2.9

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

We posted increases in organic sales in each of our business sectors, further expanding our share of relevant markets. Adhesive Technologies was able to increase organic sales by 8.3 percent to a new high of 7,746 million euros. The Cosmetics/Toiletries business sector continued its positive revenue trend of recent years and, with growth of 5.4 percent, significantly outperformed a predominantly declining market. Laundry & Home Care achieved an increase in organic sales of 2.9 percent within a slightly declining market.

Price and volume effects

in percent	Organic sales growth	of which price	of which volume
Laundry & Home Care	2.9	1.6	1.3
Cosmetics/Toiletries	5.4	–0.3	5.7
Adhesive Technologies	8.3	5.3	3.0
Henkel Group	5.9	3.0	2.9

We were able to further grow revenues in almost all our regions, except for North America:

In the highly competitive market environment of Western Europe, we increased sales by 2.8 percent to 5,624 million euros. Organic sales growth amounted to 2.3 percent, driven primarily by expansion in Germany and France. The share of sales accounted for by the region remained stable at 36 percent.

We increased sales in Eastern Europe by 6.2 percent to 2,813 million euros. The organic sales growth of 10.3 percent was generated primarily as a result of business expansion in Turkey and the successes of our adhesives business in Russia. The region’s share of consolidated sales stayed at 18 percent.

Growth in the Africa/Middle East region was adversely affected by the political unrest in some countries. This meant that – unlike in previous years – we were unable to achieve the usual double-digit nominal growth rates. In fact, revenues rose by 3.7 percent to 934 million euros, although organic sales growth did pass the double-digit mark with a 10.0 percent increase, achieved as a result of double-digit growth rates in the United Arab Emirates, Saudi Arabia and Algeria. The share of sales of the region was unchanged at 6 percent.

Due to foreign exchange factors, sales of the North America region decreased slightly, by 0.3 percent to 2,716 million euros. Despite a reluctant consumer climate in the USA, organic sales growth of the region came in at 4.4 percent. Even our Laundry & Home Care business sector, which underwent organic contraction at the beginning of the year due to declining markets and persistently tough competitive pressures, saw organic sales slightly increase. The share of sales of the region decreased from 18 to 17 percent.

The Latin America region continued to develop well, posting sales growth of 8.4 percent to 1,065 million euros. The double-digit organic growth rate of 11.0 percent was driven in particular by our business performance in Mexico, Brazil and Venezuela. The share of sales of the region remained at the prior-year level of 7 percent.

Within the Asia-Pacific region, the consequences of the natural disaster in Japan exerted a dampening influence on regional sales growth. This amounted to 5.9 percent, taking the total to 2,296 million euros. With an organic growth rate of 8.6 percent, however, the region continued to exhibit positive development, driven particularly by double-digit rates of expansion in China, India and South Korea. Asia-Pacific increased its share of sales compared to the previous year from 14 to 15 percent.

Sales in the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) increased by 6.2 percent to 6,512 million euros. Organic growth reached 10.8 percent with contributions coming particularly from the business sectors Adhesive Technologies and Cosmetics/Toiletries, both of which posted double-digit increases. The share of sales of our emerging markets rose from 41 to 42 percent.

In our effort to continuously adapt our structures to our markets and customers, we increased our restructuring charges from 184 million euros to 227 million euros, with the focus primarily on Western Europe. We further expanded our shared service centers, reorganized our Laundry & Home Care business sector for enhanced efficiency, and further optimized the production footprint serving our Adhesive Technologies business sector.

To make the development of our underlying operating activities more transparent, in the following we discuss the earnings of our business sectors after adjusting for one-time charges/gains and restructuring charges:

Adjusted operating profit (EBIT)

in million euros	2010	2011	%
EBIT (as reported)	1,723	1,857	7.8
One-time gains	–59	–57	
One-time charges	14	2	
Restructuring charges	184	227	
Adjusted EBIT	1,862	2,029	9.0

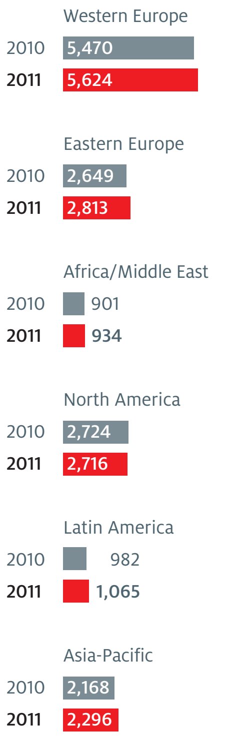
Our adjusted operating profit (adjusted EBIT) increased by 9.0 percent, from 1,862 million euros in 2010 to 2,029 million euros, with all our business sectors contributing. Despite the burdens arising from the substantial increase in prices on our procurement markets, the Group's adjusted return on sales (adjusted EBIT margin) improved by 0.7 percentage points to 13.0 percent, thus reaching our guidance.

The most significant improvement in margin was achieved by Adhesive Technologies with an increase from 12.8 to 13.9 percent. This was achieved on the back of both increases in our selling prices and the ongoing success of our cost management activities. The Cosmetics/Toiletries business sector increased its adjusted return on sales by 0.9 percentage points to 14.2 percent (previous year: 13.3 percent). This likewise reflects a combination of gratifying sales growth and efficiency enhancements. The Laundry & Home Care business sector saw its profitability grow despite strongly increased material prices, reaching 13.2 percent in 2011 (previous year: 13.0 percent).

Further details relating to our business performance can also be found in the individual reports dealing with our business sectors, which begin on AR page 76.

Sales by region *

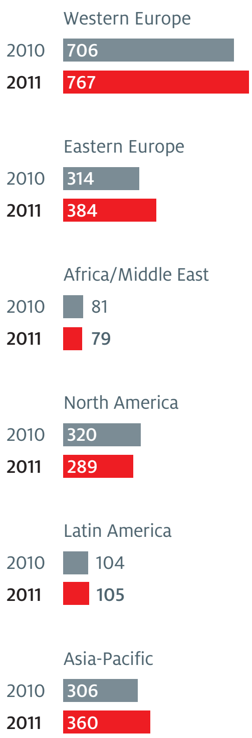
in million euros



* Excluding Corporate.

EBIT by region *

in million euros



* Excluding Corporate.

Guidance versus performance 2011

	Guidance 2011	Performance 2011
Organic sales growth	Outperform relevant market development	Laundry & Home Care: +2.9 percent (relevant market: slight decline) Cosmetics/Toiletries: +5.4 percent (relevant market: predominantly declining) Adhesive Technologies: +8.3 percent (relevant market: low single-digit growth)
Adjusted return on sales	Increase to around 13 percent	Increase to 13.0 percent
Adjusted earnings per preferred share	Increase of around 10 percent	Increase of 11.3 percent

Comparison between actual business performance and guidance

In our report for fiscal 2010, we offered guidance for the coming financial year of 2011 indicating that we intended to once again outperform our relevant markets in terms of organic sales growth, expecting an increase within the range of 3 to 5 percent. Building on the figures of 2010, we anticipated adjusted return on sales (EBIT) to increase to around 13 percent, and adjusted earnings per preferred share to undergo a rise of around 10 percent.

Although the price rises encountered for our total direct materials were higher than budgeted, we succeeded in delivering in full our sales and earnings guidance: With an organic growth rate of 5.9 percent, we actually exceeded the guidance corridor. In all three business sectors, we posted organic growth rates above those of the relevant markets. At Group level, we achieved a significant increase in adjusted return on sales from 12.3 to 13.0 percent, and also an improvement in adjusted earnings per preferred share of 11.3 percent to 3.14 euros (2010: 2.82 euros).

In our 2010 annual report, moreover, we indicated that we expected the increase in the prices for raw materials, packaging, contract manufacturing and traded goods to be in the high single-digit percentage range. The actual price increase was in the low double-digit range and therefore higher than expected.

Expense items

In the following, we discuss our operating expenses adjusted for one-time charges/gains and restructuring charges. The reconciliation statement and also the allocation of the restructuring charges to the various items of the statement of income can be found on AR page 100.

The cost of sales in 2011 outstripped the increase in revenues, coming in 5.9 percentage points higher at 8,455 million euros due to the rise in raw material prices. Gross profit rose to 7,150 million euros, while our gross margin decreased by –1.3 percentage points to 45.8 percent. The negative impact from the cost of sales rise was about 80 percent offset by increases in our selling prices, savings from cost reduction measures, and efficiency improvements in both production and supply chain.

At 4,081 million euros, marketing, selling and distribution expenses decreased by 3.5 percent compared to the figure for the previous year. We were able to make our sales and distribution processes more efficient. Lower marketing expenditures reflected a market environment characterized by a decline in general advertising expenditures.

We spent a total of 396 million euros on research and development. Our R&D ratio (R&D expenses expressed as a proportion of sales) therefore remained constant versus prior year at 2.5 percent.

Reconciliation from sales to adjusted operating profit

in million euros	2010	%	2011	%	Change
Sales	15,092	100.0	15,605	100.0	3.4%
Cost of sales	–7,983	–52.9	–8,455	–54.2	5.9%
Gross profit	7,109	47.1	7,150	45.8	0.6%
Marketing, selling and distribution expenses	–4,229	–28.1	–4,081	–26.2	–3.5%
Research and development expenses	–383	–2.5	–396	–2.5	3.4%
Administrative expenses	–711	–4.7	–706	–4.5	– 0.7%
Other operating income/charges	76	0.5	62	0.4	–18.4%
Adjusted operating profit (EBIT)	1,862	12.3	2,029	13.0	9.0%

The share of administrative expenses related to sales decreased from 4.7 percent to 4.5 percent, a development to which the expansion of our shared service centers significantly contributed.

Other operating income and charges

The balance of adjusted other operating income and charges decreased by 14 million euros to 62 million euros. This was due to lower gains from the disposal of non-current assets and write-ups, and also a decline in numerous individual gains from our operating activities, for example insurance payouts and similar income.

Financial result

Overall, our financial result improved by 16 million euros to –155 million euros, attributable primarily to the reduction in our net debt.

Net income

Income before tax increased by 150 million euros to 1,702 million euros. Taxes on income amounted to 419 million euros. The tax rate was 24.6 percent, a decrease of 1.8 percentage points compared to the previous year. This was due to positive one-time effects arising from successfully concluded tax audits relating to previous years. The adjusted tax rate was 26.0 percent (previous year: 26.6 percent).

Net income for the year increased by 12.2 percent, from 1,143 million euros to 1,283 million euros. After deducting non-controlling interests of 30 million euros, net income totaled 1,253 million euros (+12.1 percent). Adjusted net income after non-controlling interests rose by 11.4 percent to 1,356 million euros. The annual financial statements of Henkel AG & Co. KGaA, parent of the Henkel Group, are summarized on AR page 152.

Dividends

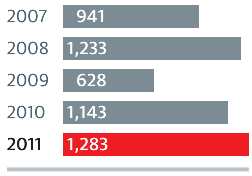
According to our financial strategy, our dividend payout ratio should be around 25 percent of the net income attributable to shareholders of Henkel AG & Co. KGaA after adjustment for exceptional items. We therefore intend to propose to the Annual General Meeting that the distribution should increase to 0.80 euros per preferred share and 0.78 euros per ordinary share, giving a payout ratio of 25.5 percent.

Earnings per share (EPS)

Basic earnings per preferred share increased from 2.59 euros to 2.90 euros, and earnings per ordinary share rose from 2.57 euros to 2.88 euros. Adjusted earnings per preferred share amounted to 3.14 euros (previous year: 2.82 euros). As of December 31, 2011, the Stock Incentive Plan introduced in 2000 resulted in a dilution of earnings per ordinary and per preferred share of 1 eurocent each.

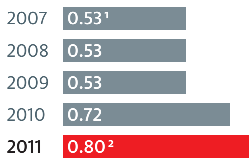
Net income

in million euros



Preferred share dividends

in euros



[1] Comparable based on share split (1:3) of June 18, 2007.
[2] Proposal to shareholders for the Annual General Meeting on April 16, 2012.

Net assets and financial position

Acquisitions and divestments

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

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

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

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

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

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

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

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

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

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

Thanks to continuing good business performance and our improved financial profile, we regained our target ratings of "A flat" (Standard & Poor's) and "A2" (Moody's) in the second quarter of 2011. Looking forward, we intend not to jeopardize our target ratings in the long term when assessing possible acquisitions.

Capital expenditures by business sector

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

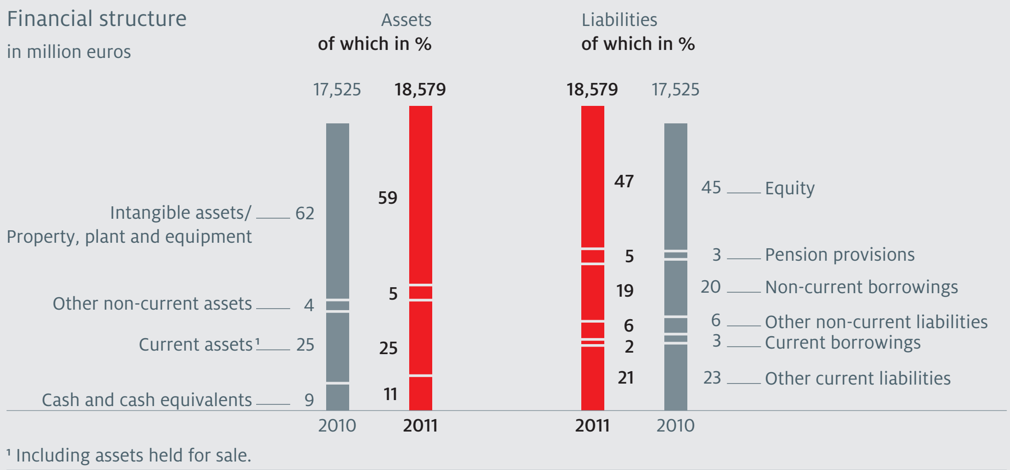
Corporate = sales and services not assignable to the individual business sectors.

Capital expenditures

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

The major individual projects of 2011 were as follows:

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



Capital expenditures 2011

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

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

First-time consolidations and purchase price adjustments resulted in additions to intangible assets in the amount of 50 million euros. For further details, please refer to the Notes on AR pages 111 to 114.

Net assets

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

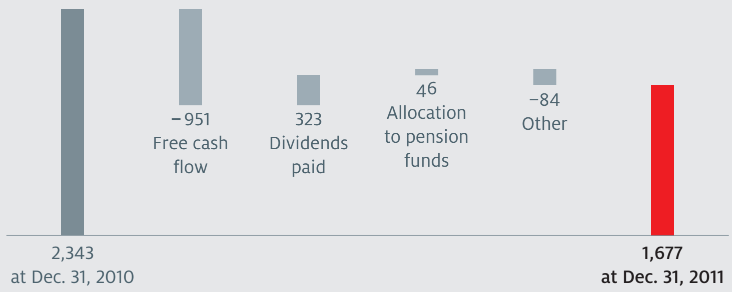
Current assets increased from 5.9 billion euros to 6.7 billion euros. Inventories and trade accounts receivable both rose as a result of higher business volumes. Cash and cash equivalents increased by 465 million euros to 1,980 million euros, due primarily to our strong cash flow from operating activities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

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

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

Net debt

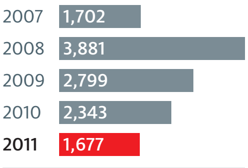
in million euros



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

Net debt

in million euros



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

Financing and capital management

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

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

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

Credit ratings

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

At Dec. 31, 2011.

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

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

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

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

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

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

Financial position

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

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

With a net outflow of 802 million euros, **cash flow from financing activities** showed a significant improvement of 421 million euros compared to the previous year, despite a higher dividend payout. The transfer of liquid funds to other current financial assets effected in the previous year, and the use of liquid funds to further strengthen our pension plan assets, were also reported as outflows under this heading.

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

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

Key financial ratios

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

Key financial ratios

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

[1] Hybrid bond included on 50 percent debt basis only. Prior-year figures not adjusted.

In 2011, Henkel garnered the "European Diversity Leadership Honour" in the category "Multicultural Working Environment" in recognition of our commitment and transparency in the diversity domain.

The purpose of a new employer branding campaign is to position Henkel specifically as an employer of choice. Its design elements serve as an effective eye-catcher in our information booths at graduate fairs.

Employees by region in 2011

- 32 % Western Europe
- 19 % Eastern Europe
- 11 % Africa/Middle East
- 11 % North America
- 8 % Latin America
- 19 % Asia-Pacific

Employees by business sector

- 20 % Laundry & Home Care
- 16 % Cosmetics/Toiletries
- 51 % Adhesive Technologies
- 13 % Functions

Employees

The number of people employed at Henkel at the end of 2011 was 47,265 (annual average: 47,753), 1 percent below the 2010 level. The year was characterized by our focus on the emerging markets, accompanied by efficiency enhancements in the mature markets, with our shared service centers covering a growing number of processes from around the world. Personnel growth was strongest in Eastern Europe with an increase in payroll of 3 percent, while Western Europe registered the highest decline of –3 percent. Sales per capita increased by 4 percent to 326,766 euros. Personnel expenses came in at 2,522 million euros.

We rely on high-performing teams to attain our ambitious goals. We offer our employees attractive development opportunities within our global corporation and provide specific training opportunities in order for them to build on their skills and expertise. Such activities also strengthen our attractiveness for new recruits, whereby promoting the diversity of our teams in terms of nationality, gender and age/professional experience is a primary focus.

In 2011 we were again able to position ourselves in the employer rankings of many countries as an attractive company – both for graduates and for candidates with professional experience. For the second consecutive year, the CRF Institute, one of the leading research organizations in the field of employer certification and employer branding, recognized Henkel with its "Top Employer Germany" award. We also took first place in the subcategories Corporate Culture, Training and Development, and Work Life Balance. Our employer branding campaign launched in February 2011 was recognized by Batten & Company with first place in its "Best Employer Brand Award 2011." By fall 2011, we had disseminated our new employer brand in all the communication channels we use. These activities all contribute to positioning Henkel more effectively as an employer of choice, attracting new talent and retaining existing employees.

Coinciding with the new employer branding campaign, we introduced a standard on-boarding program: through interactive online media – for example a comprehensive e-book and an intranet platform – new employees are provided with preparation for employment with Henkel several weeks before their first working day, helping them achieve a good start and familiarizing them with essential aspects of the company.

We also launched the fifth edition of our global innovation competition for students, the "Henkel Innovation Challenge," to coincide with the start of the 2011/2012 academic year. The competition has now been extended to 14 European countries and also the regions of Asia-Pacific, North America and Latin America. And for the first time, all our business sectors were involved. By extending the brief to include Henkel technologies and realigning the focus toward sustainability in the innovation process, we were able to also attract engineers and scientists as contenders. We are making increasing use of social media such as Facebook in order to address students. The accompanying mentoring program has led to a substantial increase in high-caliber job applicants. In Germany, Henkel offers more than 20 apprenticeship professions, for which we took on 161 apprentices in 2011. In all, we currently have 483 apprentices under contract. All our trainees successfully completed their final examination with the German Chamber of Commerce and Industry [IHK]. We again offered the dual study courses introduced in 2009. Here, students are able to combine a conventional apprenticeship with a Bachelor degree at a university, allowing them to obtain an academic qualification while gathering professional experience. In all, the number of applicants for both kinds of training course was very encouraging, providing a good indication of the attractiveness of a Henkel apprenticeship scheme. In 2011, we again conferred the Hugo Henkel Award under the patronage of Dr. Christoph Henkel. This recognizes projects and concepts in German schools designed to promote the teaching of science and technology to students in grade 5 and above.

Once more, our worldwide talent management system was at the focus of our activities during the year. Through our globally established "Development Round Tables," our managers ensure that our people are assessed on the basis of uniform principles and criteria. The annual assessments of individual performance and potential – based on the management competences revised in 2010 – were conducted with our employees in personal, open feedback discussions during the first quarter of 2011, accompanied by agreement on individually aligned development measures.

Effective January 1, 2011, Henkel introduced a further developed global short-term incentive (STI). As a performance-based component of compensation, the new STI both encourages and rewards excellent performance. Managers can thus affect a major portion of their annual STI bonus through their individual performance. This innovative concept ensures a transparent, differentiated and motivating compensation regime.

Our comprehensive range of training and development offerings covers the requirements of different employee groupings. In addition to classic seminars and online training courses for all employees, we cooperate closely with internationally renowned business schools in order to further promote the development of our managerial staff. To achieve global uniformity in the provision and quality of our range of training and development tools, we prepared a new global learning concept in 2011 involving standardized course seminars. These are scheduled for content completion and introduction in the course of 2012.

We also reviewed our international development and assessment centers for managerial staff in 2011 in terms of concept and methodology in order to ensure that, as an established component of our personnel development system, these can continue to deliver results in line with the increasing demands being placed on management.

We successfully expanded our Executive Resource Program launched in 2010 for our high-performing, high-potential employees. To prepare these talents effectively for their future duties and responsibilities, they were invited to participate in a range of high-caliber events covering strategic issues, as well as projects with an international dimension. At a one-day event attended by members of the Management Board, participants in the program, devised by the Harvard Business School, presented the results of their work in the form of projects and analyses based on their course content. And several top management positions have now been filled with graduates of the Executive Resource Program.

Employees by activity

- 49 % Production and engineering
- 31 % Marketing, selling and distribution
- 14 % Administration
- 6 % Research and development

Employees by age group

- 18 % 16–29 years
- 35 % 30–39 years
- 29 % 40–49 years
- 18 % 50–65 years

Employees[1]

(at December 31)	2007	%	2008	%	2009	%	2010	%	2011	%
Europe/Africa/Middle East	33,687	64.0	33,485	60.7	30,933	62.8	30,078	62.9	**29,530**	**62.5**
North America	6,438	12.2	7,360	13.4	5,714	11.6	5,440	11.4	**5,233**	**11.1**
Latin America	4,268	8.1	4,293	7.8	4,002	8.1	3,699	7.7	**3,681**	**7.8**
Asia-Pacific	8,235	15.7	10,004	18.1	8,613	17.5	8,637	18.0	**8,821**	**18.6**
Total	**52,628**	**100.0**	**55,142**	**100.0**	**49,262**	**100.0**	**47,854**	**100.0**	**47,265**	**100.0**

[1] Basis: permanent employees excluding apprentices.

Around 30 %
of our managers are women.

The diversity of our people with their different experiences and cultural backgrounds offers us a clear competitive advantage. Globally, our focus in this respect is on the dimensions of gender, internationality and age/professional experience. One key area involves encouraging women into managerial positions. As a result of a number of measures implemented in recent years, we have increased the proportion of women in management to around 30 percent – achieving an average growth rate of 1 percentage point per year. This makes Henkel a leader among the DAX 30 corporations in Germany. We intend to extend this lead going forward and further increase the percentage of women at all levels. We have committed ourselves to this objective in a joint declaration signed by all DAX 30 companies. Henkel has set itself specific quantitative and qualitative targets and defined the measures necessary in order to achieve them. We intend to further increase the proportion of women in managerial positions right across the Henkel Group by an average of 1 to 2 percentage points per year.

Measures implemented for enhancing the presence of women in the workplace focus both nationally and internationally on recruitment, personnel development and flexible working arrangements. During the recruitment process, Henkel endeavors to ensure a balanced range of candidates with the objective of achieving an equal distribution of women and men. Long-term career plans are put in place to ensure that professional needs can be reconciled with the demands of private life. Assignments abroad are introduced at an early stage in the career development program. Mentoring schemes have also been established to support the development of female managers. Major elements of flexible working arrangements include job-sharing models, part-time working opportunities, working at home, and the extensive use of mobile communications devices. With these offerings, we are able to move away from classic presence culture, shifting the focus to performance and contribution.

Henkel, McKinsey & Company and the German business magazine “WirtschaftsWoche” conferred the German Diversity Awards for the first time in 2011. The purpose of this ranking is to recognize outstanding examples of practiced diversity as a means of highlighting the relevance of this issue and encouraging others to emulate best practice. The award is supported by the “Charta der Vielfalt” [Diversity Charter] organization, a public-private initiative designed to promote diversity in companies.

Our employees play a key role in the implementation of our sustainability strategy: They interface with our customers and develop increasingly sustainable products. Consequently, in order to disseminate our new sustainability strategy, we have deliberately adopted a dialogue-based approach involving action plan meetings in which the strategy is jointly discussed and analyzed. Around the world, every top manager at Henkel was required to have carried out an action plan meeting with their immediate team members by the end of 2011. The process for the lower management levels is scheduled for completion by the middle of 2012. In addition to the action plan meeting as an implementation instrument, we continue to effectively integrate the topic of sustainability to a greater extent within other training and development courses and events.

As a company aware of our responsibilities, the aspect of social engagement or “corporate citizenship” is also an important component of our corporate culture – one that has been firmly anchored in our corporate values since the company first came into being. We have divided our activities into three areas: support for employee and retiree volunteering activities, corporate and brand partnerships aligned to the common good, and emergency aid for natural disaster relief. The private involvement of our employees and retirees is of key importance in this regard. The company has been supporting their volunteering activities since 1998 through our MIT initiative (Make an Impact on Tomorrow). We currently allocate around 53 percent of our global charitable funds to MIT projects, supporting activities aligned to social progress, education and science, fitness and health, culture and ecology.

Procurement

In order to be able to produce our finished products, we need externally procured materials (raw materials, packaging, and traded goods) and services. These items all fall under the general category of **direct materials**. Examples include washing-active substances (surfactants), adhesive components, cardboard boxes or external filling services. The prices paid for total direct materials rose in 2011, stabilizing at a high level in the second half of the year.

In addition to the forces of supply and demand, the prices of raw materials, packaging, contract manufacturing and traded goods are essentially determined by the prices of the input materials used in their manufacture (feedstocks). And here we saw the extraordinary price fluctuations on the procurement markets of 2010 repeated through 2011. The price upsurge with respect to petrochemical products continued, extending to other feedstocks such as oleochemicals, paper and metals. The situation was exacerbated by supply shortages due to demand rising in the wake of expanding economic development. And there were disruptions in the supply chains of external vendors caused by postponed maintenance and repair activities, and unforeseen failures in production facilities. These developments led to feedstock price levels which, taking the average for the year, were substantially above the 2010 figure. A delayed increase in the purchase prices of the raw materials, packaging, contract manufacturing and traded goods procured by Henkel then ensued.

Our expenditures for total direct materials in the year under review amounted to 7.3 billion euros, 0.6 billion euros more than in the previous year. This is primarily attributable to higher production volumes and increased prices for feedstocks. Through our global procurement strategy, we were able to cushion the effect on adjusted[1] gross margin exerted by the price increases for our direct materials. However, we were unable to compensate for them fully.

In order to improve efficiency and secure material supplies, we consistently endeavor to optimize our value chain while maintaining quality levels. In addition to our diligence in negotiating new, competitive contractual conditions, our ongoing global program aligned to reducing overall procurement cost is a major factor in the success of our purchasing strategy. Working together with the three business sectors, Purchasing is permanently engaged in reducing product complexity, optimizing our raw material mix and promoting the standardization of packaging and raw materials. This gives us stronger negotiating positions and creates scope for further consolidation of our vendor base. In establishing long-term business relationships, we focus our efforts on vendors in which we see potential with respect to innovation, optimization of manufacturing cost and improving our logistics processes. One of our main concerns within this context is to limit the risk of supply shortages. We manage our preferred vendors on the basis of individual target agreements. Through these measures, we have succeeded in reducing the number of vendors we use by 10 percent.

We have been able to increase the processing and management efficiency of our purchasing activities by further standardizing, automating and centralizing our procurement processes. Large parts of our administrative work, for example purchase order processing and price management, have been pooled within our shared service center organization.

The improvement in our net working capital is due particularly to the optimization of our terms and conditions of payment with respect to our suppliers. We have also succeeded in optimizing our raw material inventories through a process of continuous improvement in our supply chain processes.

Given the uncertainties that exist with respect to material price development and supply shortages on the procurement markets, risk management constitutes an important aspect of our purchasing strategy, with the emphasis on reducing price and supply risks while maintaining uniformly high quality. In adopting an active price management approach, we deploy strategies aligned to safeguarding prices over the long term, both through contracts and – where appropriate and possible – by means of financial hedging instruments. In order to minimize the risks of delivery default, we put in place supply disruption clauses and perform detailed risk assessments of our vendors to determine their financial stability. With the aid of an external, independent financial services provider, we continuously monitor important suppliers whose financial situation is regarded as critical. If a high risk of vendor

Material expenditures by business sector

- 29 % Laundry & Home Care
- 20 % Cosmetics/Toiletries
- 51 % Adhesive Technologies

Material expenditures by type

- 63 % Raw materials
- 18 % Packaging
- 19 % Contract manufacturing and traded goods

[1] Adjusted for one-time charges/gains and restructuring charges.

failure is identified, we systematically prepare back-up plans in order to ensure consistency of supply.

We expect our suppliers and contractual partners to behave in a manner in keeping with our own corporate ethics and values. The basic requirements in this regard are set out in our purchasing standards, valid across the Group, and our safety, health and environmental standards formulated in 1997, through which we have long acknowledged our responsibility for the entire supply chain. Consequently, when selecting and developing our vendors and contractual partners, we also consider their performance in relation to the requirements of sustainable development. We use the cross-industry Code of Conduct published by the German Federal Association of Materials Management, Purchasing and Logistics [BME] as a globally applicable vendor code and the basis for our multi-faceted "Responsible Supply Chain Process." The objective of this process is to ensure compliance by our suppliers with these standards and to improve, together with our strategic vendors, the sustainability standards pertaining to our supply chain. A global training program further ensures that the requirements governing the sustainability profile of our vendors are understood and properly applied by our employees.

Our five most important commodity groups are raw materials for use in hotmelt adhesives, washing-active substances (surfactants), raw materials for polyurethane-based adhesives, solvents and inorganic raw materials for use e.g. in detergents and surface treatment products. These account for around 34 percent of our total direct material expenditures. Our five largest suppliers account for around 14 percent of our direct material cost.

Purchases made in the general category **indirect materials and services** are not directly linked to the production of our finished products. Examples include maintenance, repair and overhaul materials, and logistics, marketing and IT services. Through our global procurement strategy and structural cost reduction measures, we succeeded in reducing our procurement prices in these categories compared to the previous year.

Due to positive business developments, the overall volume of indirect materials and services rose in 2011. The related expenditures therefore increased compared to 2010, by 0.4 billion euros to 4.3 billion euros.

Production

We further optimized our production footprint in 2011, with Henkel manufacturing products with a total weight of around 7.6 million metric tons at 180 sites located in 56 countries around the world. Our largest production facility is in Düsseldorf, Germany. Here we manufacture not only detergents and household cleaners but also adhesives for consumers and craftsmen, and products for our industrial customers. Cooperation with toll manufacturers is an integral component of our production strategy, enabling us to optimize our production and logistics structures when developing new markets or where volumes are still small. Each year we purchase around 10 percent in additional production tonnage from toll manufacturers based on current figures.

Number of production sites

	2010	2011
Laundry & Home Care	31	29
Cosmetics/Toiletries	8	8
Adhesive Technologies	149	143
Total	**188**	**180**

Our Düsseldorf facility is also the largest production site of the **Laundry & Home Care** business sector. Here we predominantly manufacture powder and liquid detergents, fabric softeners and liquid cleaning products. We have further upgraded our Germany-based production activities within our European manufacturing concept. Following the construction of a factory in Düsseldorf for the production of liquid laundry and home care detergents in 2010, we have now also constructed on the same site a new facility for the manufacture of machine-dishwashing tabs to be supplied to the markets of Germany, the rest of Europe and the Middle East region as from 2012.

In 2011, we further reduced the number of production sites around the world from 31 to 29. Concentrating our laundry and home care product manufacturing activities on fewer, more efficient factories close to our customers has enabled us to continuously improve our performance. At the end of 2011, our Ratibor site in Poland became the first Henkel factory around the world to be certified according to the international standard for energy management systems, ISO 50001. The Laundry & Home Care business sector is thus continuing its successful implementation of sustainability strategies in production.

Through the implementation of a global management and control approach to the functions of production, planning and logistics, we are now able to centrally coordinate decision processes extending over the entire supply chain. In conjunction with optimized structures and processes, this leads to the faster commercialization of innovations, more efficient cost structures and, ultimately, a higher level of competitiveness throughout the supply chain.

Cosmetics/Toiletries is very efficiently structured with eight factories around the world. The largest of these, located in Wassertrüdingen, Germany, manufactures body care and hair care products. We further optimized production in Europe in 2011 by focusing on dedicated technologies in each of our production plants.

2011 also saw us successfully complete the rollout of our "Total Productive Management" (TPM Plus) program. This involves ensuring the all-encompassing and continuous optimization of our production and supply chain processes. Through it, we have been able to achieve improvements in productivity, quality and sustainability. For example, we have further reduced our energy consumption levels and waste and wastewater volumes at all our facilities. Our commitment to sustainable methods was underlined by the "Factory of the Year" award won by the Wassertrüdingen plant in the category "Excellent Resource Efficiency." The award is jointly conferred by the business magazine "Produktion" and the management consultancy A.T. Kearney.

The currently two largest sites for **Adhesive Technologies** are likewise located in Germany: in Düsseldorf – with a portfolio of high-quality specialty adhesives for industry and consumers – and in Heidelberg, where we manufacture a broad range of adhesives and sealants.

However, in August 2011 we laid the foundations for our largest adhesives production facility. This is being built in Shanghai in order to serve rapidly rising demand for industrial adhesive technologies in China and the wider Asia-Pacific region. Through the further development of the production processes and technologies involved, water and energy consumption and carbon dioxide emissions will be state-of-the-art in this new, advanced facility. Hence our production operations will also be exemplary in terms of meeting sustainability criteria. This investment in China is a major step in the further expansion of our capacities in the emerging markets.

As part of our ongoing efficiency enhancement program, we further consolidated our global production footprint in 2011. Despite further expansion of our capacities in the emerging markets, we reduced the overall number of factories by six to 143. With other efficiency improvements also having been put in place, we have therefore been able to further reduce our manufacturing cost.

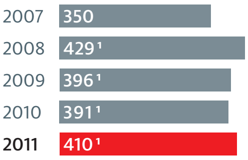
Sustainability performance 2007 to 2011, Henkel Group

Environmental indicators per metric ton of output		
Water consumption	−33 %	↘
Energy consumption	−29 %	↘
Waste footprint	−25 %	↘
Occupational accidents [1]	−35 %	↘

[1] Per million hours worked.

In all three business sectors, our optimization efforts are aligned to reducing the ecological footprint of our production activities. We focus particularly on cutting energy consumption, not least because of the climate protection benefits that this brings, on reducing our material input and waste volumes, and on limiting water consumption and wastewater pollution. New storage concepts and the manufacture of packaging materials directly at the filling site reduce transport costs and thus likewise make a contribution to climate protection.

R&D expenditures
in million euros



[1] Includes restructuring charges of 52 million euros (2008), 13 million euros (2009), 8 million euros (2010), 14 million euros (2011).

R&D expenditures by business sector

- 24 % Laundry & Home Care
- 15 % Cosmetics/Toiletries
- 61 % Adhesive Technologies

Our corporate-wide targets relating to occupational safety, resource conservation and emissions reduction for 2012 were achieved ahead of schedule by the end of 2010. Overall, our global programs for 2011 resulted in 61 percent of our sites reducing their energy consumption, 67 percent cutting their water consumption and 50 percent lowering their waste footprint. Building on this and with the further development of our strategy, we have set ourselves new sustainability targets for the period up to 2015:

- 15 percent less energy per production unit.
- 15 percent less water per production unit.
- 15 percent less waste per production unit.
- 20 percent increase in occupational safety per million hours worked.

For further details relating to our sustainability targets, please go to AR page 49.

Our standards governing safety, health and the environment, and also our social standards, apply to all our sites worldwide. Through a clearly defined process comprising communication, training courses and audits, we ensure compliance with these standards, particularly at the production level.

We have our environmental management systems at our sites externally certified where this generates benefits within our markets. By the end of 2011, around 70 percent of our production output was generated by factories certified according to the international standard for environmental management systems, ISO 14001.

Research and development

In 2011, expenditures within the Henkel Group on research and development amounted to 410 million euros (adjusted for restructuring charges: 396 million euros), compared to 391 million euros (adjusted: 383 million euros) in 2010. These figures demonstrate our continuing commitment to innovation as our primary driver of profitable growth. As in the previous year, R&D expenditure related to sales amounted to 2.6 percent (adjusted: 2.5 percent).

A major portion of this expenditure goes into the fields of polymer research, surface modification and innovative packaging. These are of major importance for all three business sectors. Around half the total R&D spend is accounted for by personnel expenses.

Our research and development costs were completely expensed in the year under review – there were no development costs qualifying for capitalization pursuant to International Financial Reporting Standards.

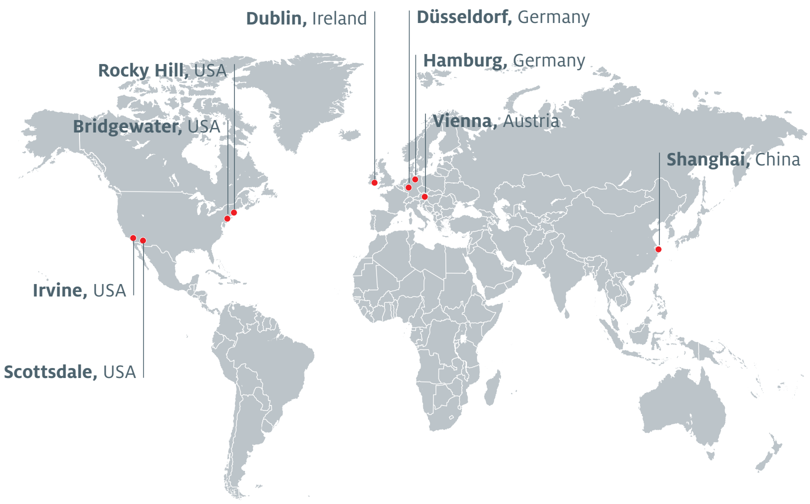
As an annual average, the number of employees working in research and development at our sites around the world was 2,654 (2010: 2,665), corresponding to 6 percent of the total workforce. The success of our R&D activities derives from the talents, skills and capabilities of our highly qualified employees. Our teams comprise scientists – predominantly chemists – but also material scientists, engineers and technicians; 18 percent of our staff hold doctorates.

Key R&D figures

	2007	2008	2009	2010	2011
R&D expenditures (million euros)	350	377 [1]	383 [1]	383 [1]	**396 [1]**
R&D expenditures (in % of sales)	2.7	2.7 [1]	2.8 [1]	2.5 [1]	**2.5 [1]**
Employees (annual average)	2,794	2,942	2,743	2,665	**2,654**

[1] Adjusted for restructuring charges.

Major Henkel R&D sites around the world



As part of our research and development strategy, we have further developed our "open innovation" approach involving greater collaboration with and integration of university teams, research institutes, suppliers and customers in our innovation processes. In order to ensure the market relevance of our developments, we have stepped up the inclusion of major customers in our R&D processes. The following examples illustrate the success we have achieved through this approach:

- For a new generation of defoamers that we use throughout the world in all our powder detergents, we conferred on the company Dow Corning our 2011 "Best Innovation Contributor" award. The patented technology permits particularly efficient control of the foaming properties as a decisive quality feature for the wash process, and also reduces the raw material input by up to 80 percent.
- We also conferred our "Best Sustainability Contributor Award" for the first time in 2011, recognizing partners in the supply chain that have been particularly supportive of our "Factor 3" sustainability objective, which involves tripling our resource efficiency (details of our 2030 sustainability strategy can be found on AR page 48). The award went to BASF for its contribution in the development of the new machine-dishwashing tablets Somat 10 with their immediate-active formula. Somat 10 tabs dissolve twice as fast as the predecessor product and are therefore able to develop their powerful cleaning performance in all dishwashing programs, even at low temperatures.
- In the hair styling field, our close cooperation with one of our main suppliers reached the level of technology transfer in product innovation. With the formulation developed through this alliance, we are now marketing a new generation of hair sprays which, in addition to impressive hold, also add exceptional luster to the hair.
- Together with the University of Pennsylvania in the USA, our adhesive researchers have developed new acrylate-based block copolymers with a high performance profile. These offer flexible adaptability to the requirements profile of each application. The technology has led to the successful development of an initial range of sealants for the automotive industry offering outstanding oil resistance. The new polymers also form the basis for a new generation of hotmelt contact adhesives.

Worldwide, growth and quality of life need to be decoupled from resource consumption and emissions. Our contribution as a company is to develop innovative products and processes that consume less resource while still offering the same or better performance. It is therefore both our duty and our desire to ensure that all products contribute to sustainable development in at least one of our six defined focal areas. These are systematically integrated within our innovation process. Hence, our researchers have to demonstrate the specific benefits that their project brings with respect to product performance and added value for our customers, resource efficiency and social progress. We therefore concentrate our R&D effort on innovations that combine product performance and quality with responsibility toward people and the environment. Life cycle analyses and our many years of experience in the field of sustainable development help us, right from the start of the product development process, to determine where in the various product categories the main environmental impact occurs and where appropriate improvement measures might be applied.

Our scientists have made key contributions to both sustainability and our performance in many fields. The following examples provide a selection of major research work that they have carried out:

Laundry & Home Care

- Development of a new, modified protease through the optimization of enzyme/stain interaction as a means of improving the washing performance of liquid detergents, particularly at low wash temperatures starting at just 20 degrees Celsius.
- Development of highly concentrated liquid laundry detergents in soluble, pre-dosed capsules which guarantee, with just half the usual dose, maximum performance per wash, while at the same time conserving resources – particularly with respect to packaging material.
- Development of a new generation of glass cleaners using surfactants manufactured entirely from renewable raw materials.

Cosmetics/Toiletries

- Use of treatment oils in a hair colorant offering noticeably improved care properties, and innovative hair care products for rebuilding the hair structure and reducing split ends.
- Development of a body wash generation which, in addition to the usual cleaning action, also offers an optimized formula for extensive protection against body odor and a freshness feel that lasts up to 18 hours.
- Formulation for hair gels with extreme hold on the basis of innovative polymer technology; also the development of styling powder products for the Branded Consumer Goods business.

Adhesive Technologies

- Global market launch of a new generation of polyolefin-based hotmelt adhesives for hygiene products, offering significantly reduced consumption per application and a low energy requirement.
- New underfill materials for innovative applications in mobile electronic devices, fulfilling the requirements of advancing miniaturization in both the devices themselves and their components.
- Development of the first gap-filling instant adhesive in the form of Loctite 3090. This patent-pending, gel-like two-component adhesive hardens after three to five minutes, is suitable for almost all materials, and offers ideal performance even under difficult conditions, e.g. involving uneven, porous surfaces, repairs with missing parts, or overhead applications.

Each year we select a number of outstanding developments for our Fritz Henkel Award for Innovation. In 2011, this accolade went to three interdisciplinary project teams in recognition of their efforts in the realization and commercialization of the following concepts:

- Innovative **WC rim block Bref "Power Activ"** – known in Germany as "Kraft-Aktiv" under the WC Frisch brand – offers patent-pending technology for all-round WC freshness. This is the first WC rim block with four functions to combat dirt and odor. The combination of actives comprises an anti-limescale formulation, a cleaning foam, a dirt repellent and a freshness intensifier. With four active pearls, each flush

Fritz Henkel Awards for Innovation 2011

www.bref.it

www.wcfrisch.de

www.glisskur.schwarzkopf.de

www.henkel.com/aquence-autophoretic-12623.htm

results in the WC undergoing a thorough clean and freshness boost. Available in three different fragrances, the innovation has convinced people in over 30 countries in Western and Eastern Europe of its powerful freshness effect.

- **Gliss Kur Ultimate Repair** repairs extremely damaged hair with triple-concentrated human-identical keratin components. The innovative technology of the new treatment series, developed in cooperation with our partners from industry, university teams and research institutes, is based on biomimetic reconstruction of the natural lipid protective layer of the hair fiber, combined with human-identical keratin components that also repair deep areas of damage within the hair. The formula with triple-concentrated liquid hair components provides the hair with resilience and renewed luster. Also included in this hair care range is the innovative treatment product Gliss Kur Oil Elixir: Based on innovative oil evaporation technology, it imparts to the hair full-bodied gloss and suppleness without making it over-heavy.
- **Aquence Co-Cure 900 Series** is a coating that provides environmentally sound corrosion protection for metal substrates, combining the two operations of pre-treatment and coating. Unlike conventional surface treatment methods, waterborne Aquence technology inhibits corrosion through the action of a unique chemical process. Aquence Co-Cure also significantly reduces the number of operations required prior to painting. The patented Aquence process consumes less energy, generates lower carbon dioxide emissions, causes less waste and thus also sustainably reduces the capital outlay and process costs of our customers.

We currently hold some 8,000 patents as protection for our technologies around the world. We also have more than 5,000 patent applications pending, and own approximately 2,000 registered designs safeguarding our intellectual property.

Further information on our research and development activities can be found on our website:
www.henkel.com/innovation

Marketing and distribution

We put our customers at the center of what we do. Hence we align our marketing and distribution activities in each of our business sectors to the requirements of each specific audience and target group.

At **Laundry & Home Care** we further centralized our marketing activities within the new organizational structure introduced in the third quarter, aligning it more effectively to our markets and customers. Central management of our global brands enables us to adopt more efficient decision-making processes, accelerate the market launch of our innovations and implement further improved cost structures. Through the close cooperation of our central marketing unit with our international organizational units, we also ensure that local market conditions are properly taken into account. We plan our distribution activities on a country-specific basis, while coordinating them at the international level. Introduction of the new organization has also allowed us to harmonize our processes on a global scale and improve the transfer of knowledge, experience and application know-how within the organization.

In the **Cosmetics/Toiletries** business sector, we develop marketing strategies for both our branded consumer goods and our hair salon businesses on a global scale, while implementing them locally. Here too, our distribution activities are managed on a national level while being increasingly coordinated at the international level. We communicate with consumers primarily through media advertising and point-of-sale campaigns. Addressing the market through the "new media" is also gaining in importance. Consumers purchase our products from retailers, primarily drug stores, grocery stores, supermarkets and department stores. We engage with our customers in the hair salon business through the activities of our sales force. Field sales representatives support the salons at the local level with, for example, product demonstrations and technical advice. As an additional service, we also offer specialist seminars and training courses in our globally established Schwarzkopf academies.

In our **consumer goods businesses**, marketing is focused on the needs of the consumer. Our marketing organization initiates innovation processes and effectively utilizes knowledge gained from market research and observation. Our marketing teams develop and execute media strategies and advertising formats that specifically address consumers. In order to support our major brands and continue to successfully market our innovations, we manage our marketing activities and investments on the basis of clear prioritization by category and region.

Our primary direct customer grouping is the grocery retail trade with distribution channels in the form of supermarkets, mass merchandisers/hypermarkets and discount stores. In Europe, drug stores are also important, while in markets outside Europe and North America, a large proportion of our sales continues to be channeled via wholesalers and distributors. Our Sales unit offers a full range of competences in serving our trade customers.

The **Adhesive Technologies** business sector serves a wide range of customers with different uses for our products. Client groups extend from large, internationally active corporations to small and medium-sized industrial businesses, craftsmen, do-it-yourselfers and private consumers.

We mainly rely on our own sales personnel as the channel for addressing our customers. Our direct customers are industrial clients and retail companies; these latter are able to meet demand from private users, craftsmen and small industrial customers more efficiently than can be achieved through direct sales. Our most important customers are supported by our key-account management teams. As many of our products are characterized by their high technical complexity, our technical customer service and the training of users also play an important role.

For our industrial accounts, we have introduced a new standard system for customer relationship management, which more than 5,000 employees are already using in over 60 countries around the world. Its functionalities go far beyond those of previously applied sales management systems, enabling us to further improve on our ability to cover existing and future client requirements.

Our strong, international brands, on which we intend to focus even more closely in the future, are of central importance to our portfolio.

We develop our marketing strategy on both the global and regional level. The measures derived from our planning are then locally implemented. To communicate with private consumers, we rely on media advertising with supportive point-of-sale activities in the retail trade. Craftsmen and industrial consumers are addressed primarily by our sales organization through the provision of technical advice, product demonstrations and training courses, and also at industrial fairs.

Electronic media are constantly growing in importance for communication with customers and users. In all three of our business sectors, therefore, we are focusing not only on constantly improving our existing website presence but also and increasingly on the use of digital and social media.

The importance of sustainability has grown significantly in our relations with our customers and consumers. Customers increasingly expect from their suppliers demonstrable compliance with global environmental, safety and social standards. Our standards and management systems, our many years of experience in sustainability reporting, and excellent appraisals by external rating agencies all help us to convince our audience of our credentials in this domain. Moreover, the credible implementation of our sustainability strategy strengthens both our brands and the reputation of our company in the marketplace. With our decades of experience in aligning our activities to sustainable development, we are able to position ourselves as a leader in the field and as a partner capable of offering our customers future-viable solutions. And we cooperate closely with our customers in trade and industry in the development and implementation of viable concepts.

In order to convey to our customers and consumers the added value of our innovations – best possible performance combined with responsibility toward people and the environment – we use direct product communication and detailed information in the new media, for example electronic newspapers or online platforms, as well as events.

We intend to increase our involvement in the development of urgently needed appropriate measurement and assessment methods in order to facilitate effective, credible communication of our contributions to sustainability. We participate in related projects and working groups allied to, for example, the Consumer Goods Forum, the Sustainability Consortium and the Environmental Footprint Pilot Project of the Commission of the European Union.

For further information on the products and brands of our three business sectors, please go to:
www.henkel.com/brands-and-solutions

Laundry & Home Care

- Organic sales growth of 2.9 percent
- Adjusted[1] operating profit improved by 1.4 percent to 570 million euros
- Adjusted[1] return on sales increased by 0.2 percentage points to 13.2 percent
- Return on capital employed (ROCE) up 0.9 percentage points to 22.1 percent
- Economic value added (EVA®) further improved to 303 million euros

Top brands

Persil Purex Dixan

Innovations 2011

Perwoll “Re-new Effect”

The innovative “Re-new Effect” in the formulations of our delicates laundry detergents Perwoll “Brilliant Colors,” “Intensive Black” and “Radiant White” smoothes roughened textile fibers and brings lustrous life to faded shades.

www.perwoll.de

Persil Black

Persil Black offers the best in Persil cleanness combined with special color protection for black and dark textiles. The liquid detergent is available for sale in Germany, Austria and Switzerland.

www.persil.de

Somat 10

Thanks to its “immediate-active formula,” Somat 10 dissolves faster than ever, enabling it to release its cleaning performance right from the start. Somat 10 was launched onto the German market in mid-2011.

www.somat.de

Key financials*

in million euros	2010	2011	+/–
Sales	4,319	4,304	–0.3 %
Proportion of Henkel sales	29 %	27 %	–2 pp
Operating profit (EBIT)	542	511	–5.8 %
Adjusted operating profit (EBIT)	562	570	1.4 %
Return on sales (EBIT)	12.6 %	11.9 %	–0.7 pp
Adjusted return on sales (EBIT)	13.0 %	13.2 %	0.2 pp
Return on capital employed (ROCE)	21.2 %	22.1 %	0.9 pp
Economic value added (EVA®)	286	303	5.7 %

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development*

in percent	2011
Change versus previous year	–0.3
Foreign exchange	–2.3
Adjusted for foreign exchange	2.0
Acquisitions/divestments	–0.9
Organic	2.9
of which price	1.6
of which volume	1.3

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

[1] Adjusted for one-time charges/gains and restructuring charges.

Economic environment and market position

The world market for laundry and home care products was generally characterized in 2011 by further intensified competition and strong increases in raw material costs. After implementing substantial price decreases in 2010, manufacturers of branded products responded to these developments by moderately raising prices in 2011 in order to partially offset the pressure on margins.

The consumer climate was dampened throughout the world by a high level of uncertainty regarding the further development of the debt crises in Europe and the USA. Similar to the previous year, our relevant markets declined slightly overall. Due to price increases introduced by brand manufacturers, suppliers of private labels were able to slightly expand their market share. This was predominantly due to the behavior of consumers in the countries of Southern Europe, particularly Italy, Spain, Greece and Portugal.

Despite this challenging market environment, in 2011 we again succeeded in significantly outperforming our relevant markets. The increase in our market shares was predominantly due to favorable developments in Europe and a noticeable improvement of our business in North America. Again in 2011, the mature markets of Western Europe and North America were characterized by a decline in growth and consumer reticence. By contrast, the German market grew slightly, faring better than all the other countries of Western Europe. Meanwhile, the US market declined significantly. We were, however, able to increase our shares in both the Western European and the North American markets. The market share gains in Germany were particularly noticeable. After the virtual stagnation of the previous year, the Eastern Europe region returned to moderate growth, with rapid expansion in the Russian and Turkish markets driving developments. In a highly competitive environment, we succeeded in further expanding our market position in Eastern Europe, reaching new highs in terms of market share. The Africa/Middle East region was hit by political unrest during the first half of the year, although recovered significantly in the course of the second half. The Latin American market recorded growth and we were able to consolidate our market shares here and in South Korea, our only market in the Asia-Pacific region.

Business activity and strategy

The business sector is globally active in the Laundry and Home Care branded consumer goods businesses. The Laundry business includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers and laundry care products. The portfolio of our Home Care business encompasses hand-dishwashing and machine-dishwashing products, cleaners for bath and WC applications, and household, glass and specialty cleaners. We also have a market presence in selected regions with air fresheners and insecticides for household applications.

Our aim is to continue generating profitable growth through the organic expansion of our continuing operations. We therefore intend to pursue both sustainable market share gains and further margin improvements. Based on our leading positions in the profitable mature markets of Western Europe and North America, we plan to further expand the share of sales of our emerging markets, particularly Eastern Europe, Africa/Middle East and Latin America. We intend to leverage the dynamics of these emerging markets in order to accelerate the growth of our portfolio. We also endeavor to further increase our market share in these regions and raise profitability to the higher level of the mature markets.

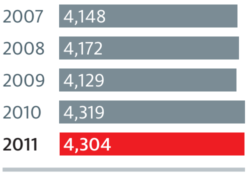
Strong brands and innovations offering consumers added value provide the basis for our strategy of profitable growth. Last year showed once again that the launch of successful products can make a positive contribution, particularly under challenging economic and market conditions. It therefore remains our objective to maintain an innovation rate[1] of at least 40 percent. In 2011, we were able to increase it to 41 percent. Through central and even more efficient management of our innovation process and with deepened insights into the purchasing habits of consumers, we are able to quickly identify and respond to consumer trends and effectively convert these into new products. By prioritizing product categories and centrally steering our global brand portfolio, we are able to direct our investments toward those segments that offer growth and profitability, enabling us to generate disproportionately strong growth with our most important brands and market segments. In 2011, we generated

41%
innovation rate.

[1] Percentage share of sales generated with new products launched onto the market within the last three years.

Sales

in million euros



+2.9 %

organic sales growth in a slightly declining world market.

81 percent of our sales with our top ten brand clusters [1].

Sales and profits

Nominally, sales declined slightly by 0.3 percent to 4,304 million euros for the year. Organically – i.e. after adjusting for foreign exchange and acquisitions/divestments – we succeeded in increasing sales by 2.9 percent, significantly outstripping the slightly declining development of our relevant markets. Despite the difficulties presented by the market environment, we were able to implement price increases for our products, particularly in the second half of the year, thus offsetting a significant portion of the material price increases. Our average selling prices rose by 1.6 percent, while volume increase contributed 1.3 percent to the business sector's organic growth. In determining the price effect, we do not account for the positive structural effect arising from the launch of new products, but instead include it under volume.

All our regions contributed to the positive business performance achieved. Western Europe posted an increase in organic sales, benefiting significantly from our very good performance in Germany. In North America, we were able to slightly increase sales in a highly competitive and appreciably declining market. Developments in our emerging markets were positive across the board. Supported in particular by rapid expansion in Russia and Turkey, sales in Eastern Europe significantly increased organically. In contrast, growth in some other core countries of Eastern Europe was hampered by market decline. While our business in the Africa/Middle East region was adversely affected by the political unrest in the first half of the year, we succeeded in significantly accelerating business expansion during the second half, enabling us to register good growth in the mid-single-digit range for the year as a whole. Our business in Latin America generated high single-digit growth, with the launch of our top brand Persil making a significant contribution and triggering our entry into the premium segment for laundry care products in Mexico. In Asia, organic sales were slightly up, despite the exit from our Philippines business in the previous year.

Operating profit (EBIT) decreased by 5.8 percent compared to the previous year, due in particular to significantly higher restructuring charges occurring in conjunction with the realignment of the business sector. In the course of streamlining our portfolio, we disposed of our branded consumer goods business in India in the second quarter of 2011, generating a gain from the transaction. Adjusted operating profit rose by 1.4 percent and adjusted return on sales improved by 0.2 percentage points, from 13.0 percent in 2010 to 13.2 percent in 2011.

Fiscal 2011 was generally characterized by high raw material price increases. However, with price increases of our own, particularly in the second half of the year, and our ongoing measures to reduce costs and increase efficiency in both production and supply chain, we were able to extensively offset the negative impact on gross margin caused by the strong increase in material costs. We also continued our strict cost management approach in other areas, likewise contributing to an improvement in margin. A decline in advertising spend was another characteristic feature of the market in 2011. Against this background, we kept our share of advertising/share of market ratio [2] constant.

Return on capital employed (ROCE) rose by 0.9 percentage points to 22.1 percent. This improvement is due to a significant reduction of our capital employed. We continued our focus on managing net working capital. As a proportion of sales, this amounted to –2.4 percent and was thus below the already very low level of the previous year. Economic value added (EVA®) rose from 286 million euros in 2010 to 303 million euros.

Business areas

Laundry

The Laundry business posted strong sales performance in 2011, with our strategically important category of heavy-duty detergents generating the greatest growth momentum. The major drivers behind this expansion included the launch of Persil in Mexico and in South Korea. Successful innovations likewise contributed greatly to the growth achieved. For instance, we introduced Persil Black in Germany, Austria and Switzerland.

[1] A brand cluster comprises several individual local brands which, in terms of their positioning, are comparable to a large international brand. By adopting this approach, we are able to generate high synergies in our marketing mix.

[2] A company's share of total advertising spend in relation to its market share, specific to Henkel's active markets.

Due to its long-term black-boosting formula, this product offers not only optimum washing performance but also exceptional color protection for black and dark apparel. We also newly launched Mega-Caps in a number of core countries in Western Europe. Mega-Caps are water-soluble capsules filled with concentrated laundry liquid. Because they are pre-dosed, Mega-Caps are particularly easy to use and offer superb results with the usual Henkel quality. Plastics consumption with Persil Mega-Caps will significantly decrease compared to conventional detergent bottles, thanks to the use of resealable composite film packaging. We likewise launched a range of innovative specialty detergents for delicates under the Perwoll brand featuring a "Re-new Effect": the formulations of Perwoll "Brilliant Colors," "Intensive Black" and "Radiant White" smooth roughened textile fibers, bringing lustrous life to faded shades.

We succeeded in maintaining the positive trend with our fabric softeners, aided by the launch of Purex Crystals in the USA, and innovative product variants of Vernel in Europe aligned specifically to hygiene and purity. In some of the major countries of Western Europe, we introduced a range of heavy-duty liquid detergents that offer smaller doses for the same performance, thus improving environmental compatibility and reducing packaging and logistics costs.

Home Care
In the Home Care business, sales for 2011 were slightly below the prior-year figure. Although declining overall due to the market entry of new competitors, and a significant drop in demand, our air freshener business in North America registered an upward trend. Conversely, we were able to generate significant revenue increases with our WC products in Europe, due in particular to the major success of Bref "Power Activ" – marketed in Germany under the brand WC Frisch. Our machine-dishwashing products likewise performed well, supported especially by the launch of Somat 10 in Germany. Somat 10 now dissolves twice as fast in the machine, enabling it to release its cleaning performance right from the start. The new "immediate-active formula" also works quickly and powerfully in short and low-temperature wash cycles.

Capital expenditures

The main focus of our investments was on innovations and cost optimization in our production and distribution processes. We also invested in plant safety and environmental systems. Overall, we spent 160 million euros on property, plant and equipment, compared to 83 million euros in 2010. The increase in 2011 is due to a high volume of innovations, particularly in the field of pre-dosed liquid detergent capsules and in WC products.

Outlook

We are confident to continue our positive growth path in 2012 and generate sales growth in the low single-digit percentage range. We expect the rate of increase in raw material prices to decelerate compared to 2011. We will remain firmly focused on maintaining our strict cost discipline, particularly in administration. While increasing the quality of service to our customers, we can further improve our efficiency by grouping activities within our shared service centers. With these measures, we expect adjusted return on sales to increase significantly compared to the previous year (2011 figure: 13.2 percent).

We see opportunities arising from a revival in demand in North America, while the successful launch of further innovations offers additional potential for our businesses. Currently unpredictable relief could also come from the raw materials side.

We see risk arising from a further downturn in the macroeconomic conditions, particularly against the background of the currently uncertain outcome of the prevailing debt crises. Strongly rising unemployment, higher taxes and social contributions, and also the possibility of strikes could adversely affect the consumer climate. Due to uncertainties in relation to price developments on the commodity markets, material prices could rise significantly more than anticipated. We regard unrest in the Africa/Middle East region as a substantial political risk.

Cosmetics/Toiletries

- Organic sales growth of 5.4 percent
- Adjusted[1] operating profit improved by 10.5 percent to 482 million euros
- Adjusted[1] return on sales increased by 0.9 percentage points to 14.2 percent
- Return on capital employed (ROCE) up 3.4 percentage points to 23.5 percent
- Economic value added (EVA®) improved by 83 million euros to 290 million euros

Top brands

Schwarzkopf Dial syoss

Innovations 2011

Gliss Kur Ultimate Repair

This innovative hair repair series with triple-concentrated liquid hair components effectively repairs dry hair both internally and at the surface, making hair more supple, lustrous and resilient.

www.glisskur.schwarzkopf.de

Fa NutriSkin

Our first body care line to feature a unique combination of seven nourishing care ingredients for protecting the skin from dryness and generating an irresistibly soft skin feeling.

www.fa.com

Bonacure Oil Miracle

Our revolutionary finishing product for daily hair care features a luxuriant oil to intensively nourish the hair, instantly giving it a rich gloss without that heavy feel. Available as an intensive treatment with argan oil or with marula oil for lighter applications.

www.schwarzkopf-professional.de

Key financials*

in million euros	2010	2011	+/–
Sales	3,269	3,399	4.0%
Proportion of Henkel sales	22%	22%	–
Operating profit (EBIT)	411	471	14.6%
Adjusted operating profit (EBIT)	436	482	10.5%
Return on sales (EBIT)	12.6%	13.8%	1.2 pp
Adjusted return on sales (EBIT)	13.3%	14.2%	0.9 pp
Return on capital employed (ROCE)	20.1%	23.5%	3.4 pp
Economic value added (EVA®)	207	290	40.6%

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development*

in percent	2011
Change versus previous year	4.0
Foreign exchange	–1.1
Adjusted for foreign exchange	5.1
Acquisitions/divestments	–0.3
Organic	5.4
of which price	–0.3
of which volume	5.7

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

[1] Adjusted for one-time charges/gains and restructuring charges.

Economic environment and market position

The world cosmetics market of relevance to us was characterized in 2011 by intense displacement competition and predominantly declining demand. Despite the persistently difficult and highly competitive environment, we were able to globally expand our market shares and therefore further strengthen our leading position in our relevant markets across the world.

Our core markets in Western Europe and North America remained weak as a result of the difficult economic conditions and low consumer confidence prevailing. Increased promotional activities, growing price pressure and a decline in the pricing level were particularly noticeable in the Western European branded goods market for hair cosmetics and the US body care market. In numerous segments, volume expansion failed to compensate for these developments. Despite this challenging market background, however, we succeeded in maintaining our growth trend of recent years, again outstripping the market overall. As a result, we were able to further expand our market shares in Western Europe and extend our leading position in the hair cosmetics business. We also consolidated our position in our core segments in North America. The emerging markets of Africa/Middle East, Latin America and Asia (excluding Japan) continued their positive development. By contrast, our market in Eastern Europe failed for the first time to show any growth against the background of increasing displacement competition. Nevertheless, we were able to further expand our business in the emerging markets in general, generating disproportionate growth and, as a result, gaining significant market share.

In the hair salon market, persistent customer reluctance led to a decline in overall demand. However, we were able to buck this trend, growing our Schwarzkopf Professional Hair Salon business and thus further consolidating our position as the world number three in this segment.

Business activity and strategy

The Cosmetics/Toiletries business sector is active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business.

Expansion in the Branded Consumer Goods business in Western Europe and North America is focused on further increasing market share. The objective of our growth strategy is to extend our innovation leadership. To this end, we pursue a consistent, pro-active innovation strategy accompanied by strict cost management to allow us to step up our market investments and increase profitability. In Asia, the Middle East and other emerging markets, we further drive business development through the rapid expansion of our portfolio. In the Hair Salon business, we continue our strategy of globalization, generating growth momentum particularly in Asia, Latin America and the Middle East.

Organic development is at the center of our growth strategy. In a market environment characterized by strong competition, we pursue this by focusing on our top brands, ensuring the rapid international launch of innovations with above-average profitability, and by selectively driving regional expansion. Further key success factors include strong support for our top brands through media advertising and promotional activities. We regularly analyze our businesses and brands as part of our pro-active portfolio management approach. In our Branded Consumer Goods business area, our focus is on the international expansion of our core businesses of Hair Cosmetics, Body Care, Oral Care and Skin Care. Through targeted portfolio management and the associated marketing measures aimed at strengthening our top brands, our ten largest brands again grew substantially faster than the overall portfolio in 2011. They now contribute more than 90 percent to the business sector's sales revenues. In addition to strengthening our brand equities, we focus particularly on the growth potential available in our key accounts.

We also endeavor to drive forward our Hair Salon business on the basis of efficient sales and distribution structures backed up by a steady flow of innovations. And we are constantly looking to develop new regional potential on a selective basis.

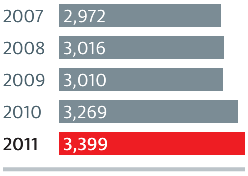
Through our pro-active innovation strategy and the consistent further strengthening of our brand equities, we expect to continue generating dynamic, profitable growth. In 2011, we further increased our innovation rate[1] to 43 percent. And we are developing additional growth potential through expansion of strategic partnerships with our customers.

43 %
innovation rate.

[1] Percentage share of sales generated with new products launched onto the market within the last three years.

Sales

in million euros



+5.4 %
organic sales growth in a predominantly declining world market.

Sales and profits

With a nominal sales increase of 4.0 percent in 2011, we maintained the unbroken trend in profitable revenue growth of recent years. Organically – i.e. after adjusting for foreign exchange and acquisitions/divestments – we grew sales by an even stronger 5.4 percent. Our performance was therefore once again well above that of the overall market. As ever, the foundation for this success was provided by our strong innovation program. Due to the intensely competitive market environment, we too found the need to increase our promotional activities for our existing portfolio. As a result, average prices were slightly below those of the previous year. In determining the price effect, we do not account for the positive structural effect arising from the launch of new products, but instead include it under volume.

All our regions contributed to the significant increase in sales. The strongest rises were once again posted by the emerging markets of Africa/Middle East, Latin America and Asia (excluding Japan). As in previous years, we were able to generate double-digit growth here. Particularly Asia (excluding Japan) and Latin America developed very dynamically with our strong core business being supplemented by numerous new product launches. We also achieved strong growth in Eastern Europe. Sales likewise increased in all our mature markets, with the mature markets of the Asia-Pacific region even registering high single-digit growth. Western Europe and especially North America developed well compared to the previous year, with our businesses there generating growth above that of our relevant markets.

We were able to increase operating profit (EBIT) to 471 million euros, 14.6 percent above the level of the previous year. The figure was positively impacted by a one-time gain from the disposal of our branded consumer goods business in India. We significantly increased adjusted operating profit (EBIT) versus prior year with a rise of 10.5 percent to 482 million euros, our highest earnings figure to date. As a result, adjusted return on sales rose by 0.9 percentage points to 14.2 percent, likewise reaching a new high. The foundation for this was provided partly by our measures to reduce costs and increase efficiency in both production and supply chain. Through these, we were able to partially offset the negative impact on our gross margin caused by the increase in material costs. We also continued our strict cost management approach in other areas, likewise contributing to an improvement in margin. In an environment characterized by a slight decline in advertising spend, we maintained our share of advertising/share of market[1] ratio.

Return on capital employed (ROCE) reached a new high of 23.5 percent, up 3.4 percentage points versus the previous year. Aside from our improved operating profit, further reductions in our capital base contributed to this high figure. Our economic value added (EVA®) rose from 207 million euros in the previous year to 290 million euros in 2011. As a proportion of sales, net working capital was a very low 3.2 percent.

Business areas

Branded Consumer Goods

Our Branded Consumer Goods business generated a gratifying increase in overall sales in 2011. The Hair Cosmetics business in particular posted very strong organic sales growth. As a result, we were once again able to expand our market shares to new record levels, growth being driven by our successful innovations under the Schwarzkopf and Syoss brands.

In the Hair Care business, we succeeded in further strengthening our market shares, with the internationally very successful launch of the new Gliss Kur line Ultimate Repair making a major contribution. Our Syoss brand was given a further boost by a relaunch involving the professional active ingredient, pro-cellium keratin. Aside from the introduction of the range-extending Syoss Men line, the launch of our highly successful Beauty Elixir Absolute Oil was particularly significant under the Syoss brand.

We were once again able to grow market shares in our Hair Colorants business to new record levels. Significant contributions came from the successful international launch of new, innovative subbrands such as Syoss Mixing Colors, a product with two harmonized shades for self-mixing, and Palette Mousse Color, the first foam colorant in Europe that mixes in a shaker. Palette was able to expand its number-one position in the European market, thanks in particular to the successful relaunch of the Deluxe line which, with seven oils, offers enhanced care performance. The further roll-out of our exceptionally successful

[1] A company's share of total advertising spend in relation to its market share, specific to Henkel's active markets.

brands Perfect Mousse and Syoss Color additionally contributed to the growth achieved.

Similarly, the Hair Styling business again posted new highs in market share. Drei Wetter Taft – Europe's number one in the styling category – further strengthened its position with innovations such as Taft Heidi's Heat Styles and Taft Volume Powder. Our trend styling brand Got2b gained further market share, driven in particular by the successful innovations Got2b Powder'ful, the innovative styling powder line, and Got2b rockin'it.

Our Body Care business was stimulated by a range of innovations, entry into new categories and product launches under the Fa, Dial and Right Guard brands. We expanded our successful Dial series NutriSkin, both with new variants in existing categories and in the newly developed body lotion category. In Europe we introduced the high-performance deodorants Right Guard Xtreme Dry and Xtreme Sports, two products that meet the needs of especially demanding customers. With Fa, the focus was on the launch of NutriSkin in the shower, deodorant and body lotion categories. As a result, Fa was able to significantly increase its market shares in Europe.

In the Skin Care business, we continued to focus on the development of innovative anti-aging products. The innovative strength of Diadermine was once again underlined by, among other things, the launch of Dr. Caspari Hormoderm, the first care product from Diadermine countering the effects of menopause on the skin aging process.

In the Oral Care business, we achieved good results with our new toothpaste series Denivit Dr. Philip.

Hair Salon

The Hair Salon business also substantially increased sales. Despite a persistently difficult market environment, we consolidated our position as the world number three. Innovative launches brought stimulus to the market. With its innovation [3D]Mension, Schwarzkopf Professional developed its first hair care series especially aligned to men. In the styling category, our top styling brand Osis was expanded by innovative products such as Osis Style Shifters. In the hair care field, the introduction of new Bonacure Oil Miracle in particular generated further growth momentum.

Capital expenditures

The emphasis of our investment activity in the year under review was on optimizing our production structures and processes. Expenditures on property, plant and equipment increased from 40 million euros in 2010 to 66 million euros in 2011. Among others we invested in further efficiency enhancements of our production, packaging tools for new products and expansion of our capacities.

Outlook

We are confident to continue our positive growth path in 2012 and generate sales growth in the low single-digit percentage range. We will remain firmly focused on maintaining our strict cost discipline, particularly in administration. While increasing the quality of service to our customers, we can further improve our efficiency by grouping activities within our shared service centers. We foresee the rate of increase in raw material prices decelerating compared to 2011. We expect adjusted return on sales to increase compared to prior year (2011 figure: 14.2 percent).

We see good prospects for the further expansion of our market positions in Europe and North America resulting from the continued diligent pursuit of our innovation offensive. There are also opportunities in the further utilization of the potential offered by our emerging markets. Currently unpredictable relief could also come from the raw materials side.

Risks lie in the uncertainty of the overall economic development and the currently uncertain outcome of the debt crises in Europe and the USA, combined with a significant deterioration in the consumer climate and intensification of displacement competition. This would result in a further rise in already high promotional and price pressures, as well as increased advertising expenditures. Moreover, unexpectedly high raw material and packaging price rises could increase the pressure on our margins.

Adhesive Technologies

- Organic sales growth of 8.3 percent
- Adjusted[1] operating profit improved significantly by 14.7 percent to 1,075 million euros
- Adjusted[1] return on sales increased by 1.1 percentage points to 13.9 percent
- Return on capital employed (ROCE) up 2.1 percentage points to 14.6 percent
- Economic value added (EVA®) improved by 209 million euros to 282 million euros

Top brands

LOCTITE Teroson technomelt

Innovations 2011

Pattex 100%

Pattex 100% is based on our patented “Flextec Technology” and is 100 percent solvent-free. The product offers high adhesive strength with easy usability and is universally suitable for projects both in and around the house.

www.pattex.de

Loctite

Loctite offers the first range of label-free anaerobic products covering all applications from fastener locking to thread and surface sealing.

www.loctiteproducts.com

Aquence Co-Cure 900 Series

This award-winning, patented solution from Aquence combines several surface-coating operations performed in paint shops, leading to savings in energy costs and reducing production complexity for our customers.

www.henkel.com/aquence-autophoretic-12623.htm

Key financials*

in million euros	2010	2011	+/–
Sales	7,306	7,746	6.0%
Proportion of Henkel sales	48%	50%	2 pp
Operating profit (EBIT)	878	1,002	14.1%
Adjusted operating profit (EBIT)	938	1,075	14.7%
Return on sales (EBIT)	12.0%	12.9%	0.9 pp
Adjusted return on sales (EBIT)	12.8%	13.9%	1.1 pp
Return on capital employed (ROCE)	12.5%	14.6%	2.1 pp
Economic value added (EVA®)	73	282	>100%

pp = percentage points
* Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Sales development*

in percent	2011
Change versus previous year	6.0
Foreign exchange	–2.1
Adjusted for foreign exchange	8.1
Acquisitions/divestments	–0.2
Organic	8.3
of which price	5.3
of which volume	3.0

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

[1] Adjusted for one-time charges/gains and restructuring charges.

Economic environment and market position

Set against the strong developments encountered in 2010, the growth rates of our markets underwent a slow-down in the year under review. While growth in almost all our industrial sectors flattened, particularly in the second half of the year, private consumption remained stable. Overall market volume increased in the low single-digit percentage range. However, developments in the various markets of relevance to our adhesives, sealants and surface treatment technologies were mixed. The construction sector saw a small degree of expansion, while growth rates in the steel, automotive and electronic industries were lower in 2011 compared to the significant gains made in 2010.

All our regions registered growth in 2011, with the upward trend in the emerging markets once again taking prominence. Working from a balanced business and regional platform, we were able once again to utilize our strong portfolio in accelerating growth past that of our markets. Our extensive presence in the emerging markets was a contributory factor in this regard. Overall, we were able to further consolidate our leading market position in the world and gain further market share.

However, the substantial rise in prices for raw materials and packaging was a particular challenge. This was exacerbated by supply shortages with respect to various important raw materials resulting from persistent capacity limitations among some of our vendors.

Looking forward, certain dominant trends will continue to provide growth momentum – for example, the ever-present need to increase energy efficiency and reduce carbon dioxide emissions, leading to higher demand for sustainable products and technologies. In addition, new areas of application for adhesives and sealants are constantly arising.

Business activity and strategy

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

In the Adhesives for Consumers, Craftsmen and Building business, we market a wide range of brandname products for private and professional users. Based on our four international brand platforms, namely Loctite, Pritt, Pattex and Ceresit, we offer target group-aligned system solutions for applications in the household, in schools and offices, for do-it-yourselfers and craftsmen and also for the building industry.

Our Transport and Metal business serves major international customers in the automotive and metal-processing industries, offering tailored system solutions and specialized technical services that cover the entire value chain – from steel coating to final vehicle assembly. With BASF Coatings GmbH, we have established a joint venture aligned to the development of innovative corrosion protection solutions for the automotive industry, which went operational in 2011.

Within the General Industry business, our customers comprise manufacturers from a multitude of industries, ranging from household appliance producers to the wind power industry. Our portfolio here encompasses Loctite products for industrial maintenance, repair and overhaul, as well as a wide range of sealants and system solutions for surface treatment applications, and specialty adhesives. Through our high-quality solutions, we help our customers strengthen their own competitiveness.

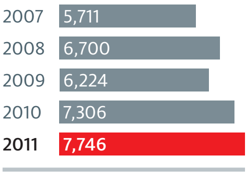
The Packaging, Consumer Goods and Construction Adhesives business serves major international customers as well as medium- and small-sized manufacturers of the consumer goods and furniture industries. Leveraging our economies of scale, we offer attractive solutions for standard and volume applications. Through our global technical customer service, we also provide innovative product ideas and technical advice, enabling our customers to become more efficient and achieve more with less material input.

Our Electronics business offers customers from the worldwide electronics industry a comprehensive portfolio of innovative high-tech adhesives and soldering materials for the manufacture of microchips and printed circuit boards. Disproportionately high investments in research and development and cooperation with our customers help in engineering solutions for future product generations.

Within the Adhesive Technologies business sector, we therefore cover the requirements of widely differing customer groups and industries

Sales

in million euros



+8.3 %

organic sales growth in a world market with growth in the low single-digits.

30 %

innovation rate.

worldwide. We intend to further expand our leading market positions with high profitability in all our business segments and regions, endeavoring to grow faster than the respective markets. An important success factor in this regard is our specific application know-how in the relevant technical fields. Due to the close contact and the extensive cooperation existing between our sales personnel and our customers, we can deliver tailored products and services on a global scale. Through strict portfolio management and our focus on strengthening our top brands, we increased the proportion of sales accounted for by our top ten brands to 54 percent in the year under review.

The close contact of our employees with customers and users is also an important source of innovation. We further see our commitment to developing sustainable solutions as a significant innovation driver and differentiator within the competitive environment. We have already attained an acknowledged leading position in the sustainability field within our markets. We will consistently extend this as we pursue the long-term sustainability strategy that Henkel has put in place.

Through a range of measures, we are continually increasing our innovation rate: In 2011, we generated around 30 percent of our sales with products successfully launched onto the market within the last five years.

Our strong position in emerging markets is also an important engine for growth. We harness the high market dynamics and the disproportionate rise in demand for adhesives encountered in these markets to drive our business development. We will thus continue to increase our investments in these regions going forward.

In the future, we intend to utilize our scale even more effectively in order to add to our competitiveness. As in recent years, we will further improve our structures. We are currently placing new emphasis on the global standardization of our business processes and the grouping of activities within our shared service centers. We also intend to generate further economies of scale by reducing complexity in our product ranges and our brands portfolio. We regularly review all components of our portfolio in terms of their contribution to achieving the long-term objectives of the business sector. Hence, in 2011 again we divested a number of small, non-core activities.

Sales and profits

The Adhesive Technologies business sector continued its profitable growth trend in 2011. In an increasingly difficult general market environment, we improved sales by 6.0 percent nominally to a new high of 7,746 million euros. At 8.3 percent, organic growth – i.e. after adjusting for foreign exchange and acquisitions/divestments – was once again significantly higher than the rate by which our relevant markets expanded. This good performance was achieved through a mix of price and volume increases. With growth in the mid-single-digit percentage range, the mature markets of Western Europe and North America showed favorable expansion overall. In our emerging markets, we again generated disproportionate double-digit growth, with our highest rates of increase occurring in the Eastern Europe region.

As in recent years, we continued to pursue the long-term adaptation of our cost structures and capacities in 2011. With an EBIT of 1,002 million euros for 2011, we succeeded for the first time in posting an operating profit figure above the 1 billion euro mark. Adjusted operating profit for the year came in at 1,075 million euros. As a result, return on sales rose by 0.9 percentage points versus the previous year, to 12.9 percent. Adjusted return on sales once again reached a new high with 13.9 percent.

The negative impact on gross margin emanating from the substantial rise in material costs was extensively offset by price increases in all our businesses and regions, as well as our ongoing measures to reduce costs and increase efficiency in both production and supply chain. Net working capital expressed as a proportion of sales amounted to 15.1 percent. Return on capital employed (ROCE) increased appreciably by 2.1 percentage points to 14.6 percent. Our economic value added (EVA®) improved by 209 million euros to 282 million euros.

Business areas

Adhesives for Consumers, Craftsmen and Building
The Adhesives for Consumers, Craftsmen and Building business once again performed well. As a result of a slight recovery in the building sector, particularly in Eastern Europe, our business with the construction industry made a significant contribution to the rise in revenues. We achieved the highest growth versus prior year in Eastern Europe and Africa/Middle East.

Industrial Adhesives
We were also able to substantially increase sales in the Packaging, Consumer Goods and Construction Adhesives business. Supply shortages with respect to certain important raw materials impacted particularly heavily on this business. Nevertheless, all our regions were able to contribute to its gratifying performance, with our emerging markets generating double-digit growth rates across the board.

Following a further recovery in its sales markets, our Transport and Metal business was able to maintain its good sales performance from 2010 also in 2011. Our ongoing investments in research and development were rewarded with several customer awards, particularly in recognition of the contributions made by our products to increasing efficiency and improving quality.

We posted our highest sales increase in the General Industry business. All our regions contributed to the strong growth, led by the emerging markets of Eastern Europe and Asia (excluding Japan). The mature markets of Western Europe and North America also showed a very pleasing development. Our Loctite brand business involving products for industrial maintenance, repair and overhaul made a vital contribution to this development.

Following very strong growth in the previous year, demand for the products and services provided by our Electronics business weakened somewhat. Overall, sales in 2011 were slightly below the level of the previous year, due mainly to a decline in the Asia-Pacific region. This decrease is partially attributable to the natural disaster suffered in Japan. However, we were able to generate positive momentum with a range of new developments, particularly in relation to the rapidly growing market for mobile communication devices.

Capital expenditures

In 2011, we invested primarily in improving the efficiency of our production facilities and in further expanding our capacities in the emerging markets. Overall, we increased our spend on property, plant and equipment from 109 million euros in 2010 to 154 million euros in the year under review.

Outlook

For 2012 we estimate organic sales growth in the mid-single-digit percentage range. We expect to once again develop significantly better in the emerging markets than in the mature markets.

We see the prices for raw materials and packaging rising more slowly than in 2011. Persistent capacity bottlenecks affecting our suppliers may once again lead to supply shortages. We will remain firmly focused on maintaining our strict cost discipline. While increasing the quality of service to our customers, we can further improve our efficiency by grouping activities within our shared service centers. Also on the basis of our significantly improved cost structures, we expect adjusted return on sales to increase versus prior year (2011 figure: 13.9 percent).

We see opportunities for our business development primarily in expediting the launch of innovations and in the possibility that the market dynamics might be more positive than currently expected. Currently unpredictable relief could also come from the raw materials side.

We see risks lying in the macroeconomic effects arising from the current debt crises and also, to a degree, in the development of our emerging markets. In key sectors such as the automotive and electronic industries, and also in the metal-processing segment, lie not inconsiderable potential risks in case of declining demand. With a less dynamic demand, the competitive pressures would increase. Moreover, unexpectedly high increases in raw material and packaging prices could exacerbate the pressure on margins.

Risk report

Risks and opportunities

In the pursuit of our business activities, Henkel becomes exposed to a multiplicity of risks inherent in the global market economy. We deploy an array of effective monitoring and control systems aligned to identifying risk at an early stage, evaluating the exposure and introducing effective countermeasures. We have incorporated these instruments within a uniform risk management system as described below.

Entrepreneurial activity also involves identifying, developing and exploiting opportunities as a means of securing and extending the company's competitiveness. The reporting aspect of our risk management system does not extend to entrepreneurial opportunity. Rather, we continuously examine and evaluate the opportunities available to us under the auspices of our business sectors, as an elementary component of our strategy. Major opportunities have been included in our forecast report on AR pages 93 to 95.

Risk Management System

The Risk Management System (RMS) at Henkel is an integral component of the comprehensive planning, control and reporting regime practiced in the individual companies, in our business sectors and at corporate level. It encompasses the systematic identification, evaluation, management, documentation, communication and monitoring of risks. Risk control and monitoring combined with our Internal Control System (ICS) support our risk management capability within the corporate governance framework.

We have defined the principles, processes and responsibilities relating to risk management in a corporate standard that is binding on the Group. New knowledge, intelligence and findings flow into our guidelines and systems as they are continuously developed. At Henkel, risk management is performed on a holistic, integrative basis involving the systematic assessment of our exposure. We understand risk as the likelihood of a negative deviation from a financial target or key performance indicator (KPI) resulting from an event or change in circumstances.

Our annual risk reporting process begins with identifying major risks using checklists based on predefined operating risk categories (e.g. procurement and production) and predefined functional risk categories (e.g. information technology and human resources). We evaluate the risks in a two-stage process according to occurrence likelihood and potential loss. Included in the reporting remit are risks with a loss potential of at least 1 million euros or 10 percent of the net external sales of a country, where the occurrence likelihood is considered greater than zero.

We initially determine the gross risk and then, in a second stage, the net risk after taking into account our countermeasures. Initially, risks are recorded on a decentralized, per-country basis, with the assistance of regional coordinators. The locally collated risks are then analyzed by the experts in the business sectors and corporate functions, classified in the appropriate corporate management committees and finally assigned to a segment-specific risk inventory. Corporate Accounting is responsible for coordinating the overall process and analyzing the inventoried exposure.

All the risk management processes are supported by an intranet-resident database which ensures transparent communication throughout the entire corporation. Within the framework of its 2011 audit of our financial statements, the auditor examined the structure and function of our risk early warning system, confirming its adequacy and regulatory compliance.

The following describes the main features of the internal control and risk management system in relation to our accounting processes in accordance with Section 315 (2) no. 5 of the German Commercial Code [HGB] as amended by the German Accounting Law Reform Act [BilMoG]. In accordance with the definition of our Risk Management System, the objective of our accounting processes lies in the identification, evaluation and management of all those risks that jeopardize the regulatory preparation of our annual and consolidated financial statements. Consequently, it is the task of the Internal Control System implemented in order to combat such discrepancies, to put in place corresponding principles, procedures and controls that will ensure a regulatorily compliant process for the preparation of such financial statements.

Within the organization of the Internal Control System, the Management Board assumes overriding responsibility at Group level. The duly coordinated subsystems of the Internal Control System lie within the spheres of responsibility of the functions Risk Management, Compliance, Corporate Accounting, Corporate Finance and Financial Operations. Within these functions, there are a number of integrated monitoring and control levels, ensuring multi-point stability of the internal control and risk management system. This is further attested by regular and comprehensive efficacy reviews performed by our Internal Audit function.

Of the many and varied control processes incorporated into the accounting regime, some are worthy of particular mention. The basis for all our accounting processes is provided by our "Accounting" corporate standard, which contains detailed accounting and reporting instructions covering all major activities and material eventualities. It specifies, for example, the procedure to be adopted in inventory valuation, and how the transfer prices applicable for intra-group transactions are to be determined. This corporate standard is binding on the entire Group and is regularly reviewed and re-released by the CFO. In particular, further globally binding procedural instructions affecting our accounting practice are contained in our corporate standards "Treasury" and "Investments."

With appropriate organizational measures in conjunction with restrictive control of access to our information systems, we ensure the effective separation of responsibilities in our accounting systems between transaction entry on the one hand and checking/auditing and approval on the other. Documentation relating to the operational accounting and closure processes ensures that important tasks – such as the reconciliation of receivables and payables on the basis of balance statements and confirmations – are clearly assigned. Strict authorization regulations also exist governing the approval of contracts, credit notes and similar, and we practice the double-check security principle right across the board. This is also stipulated in our Group-wide corporate standards.

We consider our systems to be fit for purpose and functionally efficient. They are regularly reviewed in order to determine their potential for further development and optimization. Once identified, such potential is duly utilized.

Major risk categories

Operating risks

Procurement market risks

On the procurement markets, we expect prices to rise further in 2012, albeit not to the same degree as encountered in 2011. As uncertainties will continue to prevail in the development of raw material prices, we see additional price risks arising in relation to important raw materials

Major risk categories

Risk category	Likelihood	Potential financial impact
Operating risks		
Procurement market risks	Possible	Major
Production risks	Unlikely	Major
Economic and sector-specific risks	Likely	Major
Functional risks		
Financial risks		
Credit risks	Unlikely	Major
Liquidity risks	Unlikely	Minor
Currency risks	Possible	Major
Interest rate risks	Possible	Minor
Risks from pension obligations	Possible	Major
Legal risks	Unlikely	Major
IT risks	Unlikely	Major
Personnel risks	Possible	Minor
Environmental and safety risks	Possible	Major
Business strategy risks	Possible	Moderate

and packaging. Further price and supply risks ensue from the possibility of supply shortages in the procurement markets for reasons of demand or production restrictions. We combat these risks by adopting a comprehensive risk management approach. This involves the pro-active management of our vendor portfolio and utilization of our globally engaged, cross-divisional sourcing capability, together with strategies aimed at securing both price and volume through the conclusion of contracts. Where appropriate and possible, we also make prudent use of effectively tailored financial safeguards and hedging instruments. (For further information relating to the risks arising from derivative financial instruments used for hedging purposes, please refer to Note 21 on AR pages 128 to 138.)

We also work within interdisciplinary teams (Research and Development, Supply Chain Management and Purchasing) on devising alternative formulations and different forms of packaging to be able to respond flexibly to unforeseen fluctuations in raw material prices. We also avoid becoming dependent on individual vendors so as to better secure the constant supply of the goods and services that we require. Close collaboration with our strategic suppliers plays an exceptionally important role in our risk management regime. We deal in detail with the assessment of vendor risk with respect to vendor financial stability in the section on "Procurement" on AR pages 67 and 68. The basis for our successful risk management approach in this domain is a comprehensive procurement information system that ensures permanent transparency with respect to our purchasing volumes.

Production risks

Risks in the field of production arise in the Henkel case not only from low capacity utilization due to volume decreases, but also in the possibility of operational interruptions, especially at our so-called single-source sites. The negative effects of possible production outages can be offset through flexible production control and, where economically viable, appropriate insurance policies. Generally, risks in the field of production are minimized by ensuring a high level of employee qualification, establishing clearly defined safety standards, and carrying out regular plant and equipment maintenance. Decisions relating to capital expenditures on property, plant and equipment are made in accordance with defined, differentiated responsibility matrices and approval procedures in order to mitigate concomitant risk. The procedures implemented incorporate all the relevant specialist functions and are regulated in an internal corporate guideline requiring that such investments be analyzed in advance on the basis of a detailed risk appraisal. Further auditing and analytical procedures accompanying projects at the assessment and implementation stage provide the foundation for successful project management and effective risk reduction.

Macroeconomic and sector-specific risks

We remain exposed to macroeconomic risks emanating from the uncertainties of the current economic environment. Specifically, declining market growth combined with intensifying competitive pressures constitutes risk in both our branded consumer goods and our industrial businesses. We are currently observing an ongoing process of consolidation within the retail trade, resulting in increased pressure on both prices and terms of business relating to the trade's own private labels. Our focus therefore is on achieving a steady increase in our brand equities and developing further innovations. We see innovative products as enabling us to differentiate ourselves from the competition, this being a significant prerequisite for the success of our company.

Functional risks

Financial risks

Henkel is exposed to financial risk in the form of credit risks, liquidity risks, currency risks, interest rate risks and risks arising from our pension obligations.

For information relating to our credit risk, liquidity risk, interest rate and currency risk, including the risk-limiting measures applied and the management approach to such exposure, please refer to Note 21 on AR pages 128 to 138.

Risks from pension obligations relate to changes in interest rates, inflation rates, trends in wages and salaries, and changes in the statistical life expectancy of pension beneficiaries. To minimize exposure and improve risk management, the pension obligations arising in the most important countries are therefore almost fully funded. They are managed on the basis of a two-track portfolio approach: The main portion of the portfolio is invested in interest-bearing plan assets (liability-driven investments), reducing the interest rate and inflation risk. In order to cover the risks arising from trends in wages, salaries and life expectancies, and to close the potential deficit between plan assets and pension obligations over the long term, additional investments are made in a return-enhancing portfolio as an add-on instrument that contains assets such as equities, private equity investments, hedge funds, real estate and commodity investments.

The pension funds can be adversely affected in the event of a downturn in the capital markets. We mitigate this risk by investing in widely diversified classes of assets and different instruments within each asset class. The risks inherent in the pension plan assets are continuously monitored and controlled on the basis of risk and return criteria. Risks are quantified using sensitivity analyses. Major pension funds are administered by external fund managers in Germany, the USA, the UK, Ireland and the Netherlands. All these countries follow the above-described standard investment strategy and are centrally monitored. The funds covering our pension obligations are invested on the basis of asset-liability studies aligned to the expected cash flows arising from the country-specific pension obligations. Further information on the development of our pension obligations can be found in Note 15 on AR pages 120 to 124.

Legal risks

As a globally active corporation, we are also exposed in the course of our ordinary business activities to a range of risks relating to litigations and other proceedings or actions, including those brought by governmental agencies, in which we are currently involved or may become involved in the future. These risks arise, in particular, in the fields of product liability, product deficiency, laws relating to competition and monopolies, the infringement of proprietary rights, patent law and tax law, and environmental protection and land contamination issues. The possibility cannot be discounted that the final decisions taken in some of these litigations and proceedings will go against us.

We counteract legal risks by issuing corresponding binding guidelines and codes of conduct and by instituting appropriate training measures. We address current actions and the associated exposure by maintaining constant contact between the corporate legal department and local attorneys, and also through our separate reporting system. For certain legal risks, we have concluded insurance policies that are standard for the industry and that we consider to be fit for purpose. We form provisions for litigations where it is likely in our estimation that obligations may arise which are either excluded from or not fully covered by our insurance policies and where a reasonably accurate estimate of the potential loss is possible. However, predicting the results of actions is beset with considerable difficulties, especially in cases in which the claimant is seeking substantial or unspecified damages. Given these imponderables, we are unable to predict what obligations may arise from such litigations. Consequently, major losses can emanate from litigations and proceedings that are not covered by our insurance policies or our provisions.

We do not currently foresee risks arising from litigations or proceedings, either pending or threatened, that could have a material influence on our net assets, financial position or results of operations.

Supplementary information on pending actions:
Henkel is involved in litigations being brought by various antitrust authorities in Europe. These relate to infringements, some of which occurred more than ten years ago. Henkel has cooperated with the authorities with respect to all such actions.

On April 13, 2011, the European Commission imposed fines on a number of international laundry detergent manufacturers for reason of infringements that had occurred in various countries in Western Europe between 2002 and the beginning of 2005, which were discovered by Henkel in the course of internal compliance audits carried out in 2008. Henkel then immediately informed the relevant authorities and contributed materially to investigations into the matter. Due to our extensive cooperation with the EU Commission, Henkel was granted full immunity from fines.

On December 8, 2011, the French antitrust authorities imposed fines totaling around 360 million euros on several international detergent manufacturers on account of antitrust violations in France in the period from 1997 to 2004. Henkel received a fine of around 92 million euros. We have deposited the monies and filed an action against the decision of the French antitrust authorities. This action has no suspensive effect with regard to lodgment of the fine. In our opinion and in that of the attorneys from whom we are seeking advice, the French antitrust authorities' decision is not legally correct. We cooperated extensively with the antitrust authorities throughout the entire proceedings and, on the basis of our own internal investigations, supplied important information that assisted in establishing the key facts of the matter in France. In addition, we were the first company to disclose the European dimension of the case. In our understanding, the case in France is directly related to the antitrust violations concerning heavy-duty detergents in various West European countries – including France – that led to sanctions being imposed by the European Commission on April 13, 2011. We were granted full exemption from any fines in relation to these antitrust violations. It would be contradictory if the French antitrust authorities were to impose separate sanctions on us in respect of these infringements.

Information technology risks

The risks associated with our IT operations relate primarily to the potential for unauthorized access and data loss. Appropriate approval procedures, authorization profiles and defensive technologies are deployed in order to guard against such eventualities. Daily data back-up runs are conducted to shadow all critical databases, and the resultant files are transferred to another site. We also carry out regular restore tests. External attacks that took place in 2011 – for example in the form of hacking, spamming or viruses – were successfully repelled by the security measures implemented and therefore had no disruptive effect on our business processes.

Moreover, Henkel has put in place a globally binding internal IT guideline to which our external service-providers are also bound. Major components of this code include measures for avoiding risk, and descriptions of escalation processes and best-practice technologies. Correct implementation is continuously monitored by our globally active Internal Audit function. In addition, our safeguards are examined for their efficacy and efficiency by external specialists.

Personnel risks

The future economic development of Henkel is essentially dependent upon the commitment and capabilities of our employees. We respond to the increasing competition for well qualified technical and managerial staff by maintaining close contacts with selected universities and by conducting special recruitment campaigns. Our new employer branding campaign is serving to position us even more effectively as an employer of choice. We combat the risk of failing to retain valuable employees over the long term through specifically aligned personnel development programs. The basis for these is provided by regular potential and performance analyses leading to attractive qualification and further training opportunities linked to performance-related compensation arrangements. You will find further information relating to our employees on AR pages 64 to 66.

Environmental and safety risks

Henkel is a global manufacturing company and is therefore exposed to risks pertaining to environment, safety, health and social standards, manifesting in the form of personal injury, physical damage to goods and reputational damage. We minimize these risks by applying the appropriate management systems and processes, and also through our auditing, advisory and training activities. We update these preventive and precautionary measures on a continual basis with a view to safeguarding our facilities, assets and reputation. Integrity in this respect is further ensured by compliance with high technical standards and our rules of conduct, and by faithful implementation of relevant statutory directives.

Business strategy risks

Business strategy risks can arise from the expectations that we have invested in internal projects, acquisitions and strategic alliances failing to materialize in part or in full. This may, in turn, mean that we are unable to recoup the associated capital expenditures. Individual projects could also be delayed by unforeseen risks. We endeavor to minimize these business strategy risks through regular and intensive analysis of the market and our competition.

Our strategy of standardizing our processes on a global scale and concentrating our production facilities may give rise, for example, to strained relationships with employees and vendors. We limit exposure through early risk analyses performed by experienced specialist departments, supported by external consultants where appropriate.

Overall risk – Management Board appraisal

At the time of writing this report, there are no identifiable risks relating to future developments that could endanger the existence either of Henkel AG & Co. KGaA or of the Group as a going concern. As we have no special-purpose entities or investment vehicles, there is no risk that might emanate from such a source. Aggregation of the most significant individual risks is not appropriate due to the unlikelihood that such risks would occur simultaneously. Our risk analysis indicates that our exposure to risk does not represent any lasting endangerment to the net assets, financial position and results of operations either of Henkel AG & Co. KGaA or of the Group. The overall picture shows no underlying change to the risk situation compared to the previous year. The system of risk categorization undertaken by Henkel continues to indicate that the most significant exposure currently relates to the impact of macroeconomic and sector uncertainty and financial risk, to which we are responding with the countermeasures described.

Forecast

Macroeconomic development

Overview: Gross domestic product growth below 3 percent with mixed regional developments expected

We expect 2012 to bring a general slowdown in economic growth, but without a global collapse such as experienced in the crisis year 2008/2009. Based on the data provided by Feri EuroRating Services[1], we expect gross domestic product to rise by less than 3 percent.

2012 should again see the emerging regions undergo robust economic expansion, supported in particular by developments in Russia and China. For Asia (excluding Japan) we expect an increase in economic output of around 6 percent, while that of Latin America is likely to be about 4 percent. Eastern Europe should grow by around 3 percent, while expansion of the economies in the Africa/Middle East region is anticipated at roughly 4 percent.

We expect the industrialized countries to grow 1.5 percent. North American GDP is likely to expand 2 percent. Western Europe's growth should be less than 1 percent, that of Japan 2 percent.

[1] As of January 2012.

Raw material prices: Moderate rise in price level

With raw material prices having consolidated at a high level during the second half of 2011, we expect them to rise moderately in 2012. In the previous year, we were confronted with a high degree of volatility in the procurement markets. For 2012, we expect uncertainties in relation to raw material price developments. We also anticipate that logistics services will become more expensive.

Currencies: No major changes

We do not expect any material change in the euro exchange rate versus the US dollar, with the annual average for 2012 likely to be around 1.41 US dollars. However, this is based on the assumption that the debt crisis in Europe will not increase in severity and that a political solution will be found. Moreover, based on these assumptions, we expect that currencies of importance for Henkel from the emerging regions, such as the Russian ruble, the Mexican peso and the Polish zloty, will moderately appreciate in this economic climate.

Our forecasts are based on the following exchange rates:

Average exchange rates versus the euro

	2011	2012[1]
Chinese yuan	8.99	**8.69**
Mexican peso	17.31	**16.40**
Polish zloty	4.13	**3.91**
Russian ruble	40.91	**40.30**
US dollar	1.39	**1.41**

[1] Forecast.

Inflation: Slight increase in global price indices expected

According to data supplied by Feri EuroRating Services, global inflation is forecasted to be around 4 percent. While we can expect a continuing high degree of price stability for the industrialized countries with the figure at 2 percent, the inflation rate of the emerging regions is likely to average around 6 percent.

Sector development

Consumption and the retail sector: Growth at 2011 level

Based on data provided by Feri EuroRating Services, we anticipate that worldwide private consumption – and, linked to this, retail sales – will expand in 2012 at approximately the same rate as in 2011 (about 3 percent). Consumers in the industrialized countries are expected to spend about 1 percent more than in 2011, while the emerging markets will again see a rise in consumption of about 5 percent in 2012.

Industry: Growth of 3 percent
According to data supplied by Feri EuroRating Services, growth in industrial output will ease in 2012 compared to 2011 and, at around 3 percent, will only expand slightly faster than the global economy as a whole.

It is expected that the transport industry will register a plus of over 3 percent, with the automotive sector posting a similar number. Production of the electronics industry, an important customer sector for Henkel, should also increase further, by about 4 percent. Growth in basic products such as semiconductors and printed circuit boards is actually likely to be more robust than in 2011. Production of the metal industry should expand more slowly than in 2011, with growth expected to be around 3 percent. Developments in consumer-related sectors such as the global packaging industry are likely to be sluggish, growing according to our estimates in the low single-digit percentage range, as was the case in 2011. Global construction should expand by around 2 percent.

Opportunities: Emerging regions and innovative products with plenty of potential

We continue to see great potential in the emerging markets, with above-average growth opportunities from which we intend to benefit through our local business activities. The regions concerned include, in particular, Asia, Eastern Europe and Africa/Middle East, with Latin America also part of the wider group.

We regard our research and development activities as a further great source of opportunity. We are developing a steady stream of new and innovative products and product solutions offering our customers added value. We have a well filled and balanced pipeline of medium and long-term projects involving products and systems that we intend to launch onto the markets of all three of our business sectors, both this year and in years to come.

Further opportunity lies in our strict focus on cost and our willingness to constantly examine and analyze the status quo. Such scrutiny regularly reveals further potential for cost reductions and capacity adjustments, or the elimination of non-core business activities and minor brands from our portfolio. We also expect the planned further expansion of our shared service centers to make a substantial contribution to cost reduction.

Opportunities will also arise from the ongoing pursuit and implementation of our three strategic priorities, which we explain in detail in the section entitled “Strategy and financial targets for 2012” on AR pages 45 to 48.

Further specific opportunities and risks are discussed in the individual business sector reports starting on AR page 76.

Outlook for the Henkel Group in 2012

We expect the Henkel Group to generate organic sales growth of between 3 and 5 percent in fiscal 2012.

We are confident of continuing the positive growth trend posted by our consumer goods businesses, with revenues expanding in the low single-digit percentage range.

For the Adhesive Technologies business sector, we expect sales to grow in the mid-single-digit percentage range.

We base this prediction on our strong competitive position. This we have consolidated and further extended in recent years through our innovative strength, our strong brands, our leading market presence and the quality of our portfolio.

In recent years we have introduced a number of measures that have had a positive impact on our cost structure. And in this year too, we intend to further adapt our structures to the constantly changing market conditions as a continuation of our commitment to strict cost discipline. We also intend to counteract the burden on earnings caused by high raw material costs.

These factors, together with the expected increase in sales, will positively influence our earnings development. Based on our 2011 results, we anticipate achieving an increase in adjusted[1] return on sales (EBIT) to 14 percent (2011: 13.0 percent) and an increase in adjusted earnings per preferred share of at least 10 percent.

[1] After adjusting for one-time charges/gains and restructuring charges.

We also expect the following developments in 2012:

- Increase in the prices for raw materials, packaging, contract manufacturing and traded goods in the mid-single-digit percentage range.
- Restructuring charges of around 100 million euros.
- Investments in property, plant and equipment of around 410 million euros.

Further specific expectations are discussed in the individual business sector reports starting on AR page 76.

Financial targets for 2012

Annual organic sales growth (average):
3–5 percent

Adjusted return on sales (EBIT):
14 percent

Annual growth in adjusted earnings per preferred share (average):
> 10 percent

Dividends

In keeping with our financial strategy, the dividend payout should be around 25 percent of net income attributable to shareholders of Henkel AG & Co. KGaA. Based on the anticipated increase in earnings, we therefore expect to further increase dividends paid for 2012.

Capital expenditures

We are planning to increase our investments in property, plant and equipment to around 410 million euros in 2012. In so doing, we will be increasing our focus on investment in our emerging markets. For structural reasons, the majority of our capital expenditures will be in Europe and North America.

Major investments in production facilities for the manufacture of innovative products are planned for the business sectors Laundry & Home Care and Cosmetics/Toiletries. Another major area lies in production plant optimization and capacity expansion. The focus of our Adhesive Technologies business sector in 2012 will be on consolidating and rationalizing our production footprint. As part of this process, in 2011 we laid the foundations in China for the construction of our largest industrial adhesives production facility worldwide. In the emerging markets of Eastern Europe and South America, our investment activities will concentrate on expanding production capacity.

Acquisitions, financing and liquidity

We plan to further reduce our net debt in fiscal 2012. We intend to maintain a sufficient balance of liquid funds in order to enhance our financial flexibility. We are further aiming at renewing the credit line, which expires in 2012, safeguarding our commercial paper program.

Thanks to continuing good business performance and our improved financial profile, we regained our target ratings of “A flat” (Standard & Poor’s) and “A2” (Moody’s) in the second quarter of 2011. Looking forward we intend not to jeopardize our target ratings in the long term when assessing possible acquisitions.

Post-2012 outlook

Diligent pursuit of our strategic priorities formulated in 2008 has led to a significant improvement in our key financials, with the trend remaining upward. We will again be aiming to achieve profitable growth in 2013. We will be presenting specific financial targets for the years after 2012 at the end of fiscal 2012.

Subsequent events

There have been no notifiable events.

Consolidated financial statements

Subindex

Notes to the consolidated statement of income

Other disclosures

Consolidated statement of financial position

Assets

in million euros	Note	2010	%	2011	%
Intangible assets	1	8,641	49.3	8,769	47.2
Property, plant and equipment	2	2,215	12.6	2,264	12.2
Other financial assets[1]	3	238	1.4	246	1.3
Income tax refund claims		3	–	1	–
Other assets[1]	4	135	0.8	103	0.6
Deferred tax assets	5	358	2.0	465	2.5
Non-current assets		**11,590**	**66.1**	**11,848**	**63.8**
Inventories	6	1,460	8.3	1,550	8.3
Trade accounts receivable	7	1,893	10.8	2,001	10.8
Other financial assets[1]	3	684	3.9	748	4.0
Income tax refund claims		133	0.8	164	0.9
Other assets[1]	4	219	1.2	237	1.2
Cash and cash equivalents	8	1,515	8.7	1,980	10.7
Assets held for sale	9	31	0.2	51	0.3
Current assets		**5,935**	**33.9**	**6,731**	**36.2**
Total assets		**17,525**	**100.0**	**18,579**	**100.0**

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

Equity and liabilities

in million euros	Note	2010	%	2011	%
Issued capital	10	438	2.5	438	2.4
Capital reserve	11	652	3.7	652	3.5
Treasury shares		–99	–0.5	–93	–0.5
Retained earnings	12	7,926	45.2	8,586	46.2
Other components of equity	13	–1,058	–6.0	–942	–5.1
Equity attributable to shareholders of Henkel AG & Co. KGaA		**7,859**	**44.9**	**8,641**	**46.5**
Non-controlling interests	14	91	0.5	121	0.7
Equity		**7,950**	**45.4**	**8,762**	**47.2**
Pension obligations [1]	15	644	3.7	998	5.4
Income tax provisions	16	119	0.7	93	0.5
Other provisions	16	302	1.7	394	2.1
Borrowings	17	3,570	20.4	3,501	18.8
Other financial liabilities [1]	18	73	0.4	54	0.3
Other liabilities [1]	19	25	0.1	23	0.1
Deferred tax liabilities	5	416	2.4	481	2.6
Non-current liabilities		**5,149**	**29.4**	**5,544**	**29.8**
Income tax provisions	16	327	1.9	309	1.7
Other provisions	16	867	4.9	833	4.4
Borrowings	17	536	3.1	412	2.2
Trade accounts payable	20	2,308	13.2	2,411	13.0
Other financial liabilities [1]	18	147	0.8	84	0.5
Other liabilities [1]	19	230	1.2	207	1.1
Corporate income tax liabilities		11	0.1	17	0.1
Current liabilities		**4,426**	**25.2**	**4,273**	**23.0**
Total equity and liabilities		**17,525**	**100.0**	**18,579**	**100.0**

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

Consolidated statement of income

in million euros	Note	2010	%	2011	%	Change
Sales	22	**15,092**	**100.0**	**15,605**	**100.0**	**3.4%**
Cost of sales[1]	23	–8,078	–53.5	–8,538	–54.7	5.7%
Gross profit		**7,014**	**46.5**	**7,067**	**45.3**	**0.8%**
Marketing, selling and distribution expenses[1]	24	–4,257	–28.2	–4,132	–26.5	–2.9%
Research and development expenses[1]	25	–391	–2.6	–410	–2.6	4.9%
Administrative expenses[1]	26	–750	–5.0	–785	–5.0	4.7%
Other operating income	27	216	1.4	209	1.3	–3.2%
Other operating charges	28	–109	–0.7	–92	–0.6	–15.6%
Operating profit (EBIT)		**1,723**	**11.4**	**1,857**	**11.9**	**7.8%**
Interest income		25	0.2	45	0.3	80.0%
Interest expense		–197	–1.3	–200	–1.3	1.5%
Interest result		–172	–1.1	–155	–1.0	–9.9%
Investment result		1	–	–	–	–100.0%
Financial result	29	**–171**	**–1.1**	**–155**	**–1.0**	**–9.4%**
Income before tax		**1,552**	**10.3**	**1,702**	**10.9**	**9.7%**
Taxes on income	30	–409	–2.7	–419	–2.7	2.4%
Tax rate in %		*26.4*		*24.6*		
Net income		**1,143**	**7.6**	**1,283**	**8.2**	**12.2%**
– attributable to non-controlling interests	31	25	0.2	30	0.2	20.0%
– attributable to shareholders of Henkel AG & Co. KGaA		1,118	7.4	1,253	8.0	12.1%

[1] Restructuring charges 2011: 227 million euros (2010: 184 million euros), of which: cost of sales 83 million euros (2010: 114 million euros); marketing, selling and distribution expenses 51 million euros (2010: 23 million euros); research and development expenses 14 million euros (2010: 8 million euros); administrative expenses 79 million euros (2010: 39 million euros).

Earnings per share (basic)

in euros	Note	2010	2011	Change
Ordinary shares	35	2.57	2.88	12.1%
Non-voting preferred shares	35	2.59	2.90	12.0%

Earnings per share (diluted)

in euros	Note	2010	2011	Change
Ordinary shares	35	2.56	2.87	12.1%
Non-voting preferred shares	35	2.58	2.89	12.0%

Additional voluntary information

in million euros		2010	2011
EBIT (as reported)		1,723	1,857
One-time gains[1]		–59	–57
One-time charges		14	2
Restructuring charges		184	227
Adjusted EBIT		1,862	2,029
Adjusted return on sales	*in %*	*12.3*	*13.0*
Adjusted tax rate	*in %*	*26.6*	*26.0*
Adjusted earnings per share (basic)	in euros	2.82	3.14
Adjusted net income – attributable to shareholders of Henkel AG & Co. KGaA		1,217	1,356

[1] Of which: 48 million euros gain from the sale of our branded consumer goods business in India, and 9 million euros gain from the sale of our roofing membrane business under the Wolfin brand operated by Adhesive Technologies.

Consolidated statement of comprehensive income

See Notes 15 and 21 for further explanatory information

in million euros	2010	2011
Net income	1,143	1,283
Exchange differences on translation of foreign operations	531	113
Gains/losses from derivative financial instruments (Hedge reserve per IAS 39)	– 59	4
Losses from financial instruments in the available-for-sale category (Available-for-sale reserve)	–	– 2
Actuarial gains/losses	53	–297
Other comprehensive income (net of taxes)	525	–182
Total comprehensive income for the period	1,668	1,101
– attributable to non-controlling interests	31	29
– attributable to shareholders of Henkel AG & Co. KGaA	1,637	1,072

Consolidated statement of changes in equity

See Notes 10 to 14 for further explanatory information

	Issued capital					Other components of equity					
in million euros	Ordinary shares	Preferred shares	Capital reserve	Treasury shares	Retained earnings	Transla-tion dif-ferences	Hedge reserve per IAS 39	Available-for-sale reserve	Share-holders of Henkel AG & Co. KGaA	Non-con-trolling interests	Total
At January 1, 2010	260	178	652	– 109	7,017	– 1,301	– 223	–	6,474	70	6,544
Net income	–	–	–	–	1,118	–	–	–	1,118	25	1,143
Other comprehensive income	–	–	–	–	53	525	– 59	–	519	6	525
Total comprehensive income for the period	–	–	–	–	*1,171*	*525*	*– 59*	–	*1,637*	*31*	*1,668*
Dividends	–	–	–	–	– 225	–	–	–	– 225	– 19	– 244
Sales of treasury shares	–	–	–	10	9	–	–	–	19	–	19
Changes in ownership interest without loss of control	–	–	–	–	– 27	–	–	–	– 27	– 10	– 37
Other changes in equity	–	–	–	–	– 19	–	–	–	– 19	19	–
At December 31, 2010/ January 1, 2011	260	178	652	– 99	7,926	– 776	– 282	–	7,859	91	7,950
Net income	–	–	–	–	1,253	–	–	–	1,253	30	1,283
Other comprehensive income	–	–	–	–	– 297	114	4	–2	– 181	–1	– 182
Total comprehensive income for the period	–	–	–	–	*956*	*114*	*4*	*–2*	*1,072*	*29*	*1,101*
Dividends	–	–	–	–	– 307	–	–	–	–307	–16	–323
Sales of treasury shares	–	–	–	6	6	–	–	–	12	–	12
Changes in ownership interest without loss of control	–	–	–	–	–1	–	–	–	–1	–2	–3
Other changes in equity	–	–	–	–	6	–	–	–	6	19	25
At December 31, 2011	260	178	652	– 93	8,586	– 662	– 278	– 2	8,641	121	8,762

Consolidated statement of cash flows

See Note 36 for further explanatory information

in million euros	2010	2011
Operating profit (EBIT)	1,723	1,857
Income taxes paid	– 365	– 426
Amortization/depreciation/write-ups of non-current assets (excluding financial assets)	478	403
Net gains/losses on disposal of non-current assets including divestments (excluding financial assets)	– 5	– 68
Change in inventories	– 182	– 105
Change in trade accounts receivable	– 72	– 111
Change in other assets	– 14	– 71
Change in trade accounts payable	341	111
Change in other liabilities and provisions	– 53	– 28
Cash flow from operating activities	1,851	1,562
Purchase of intangible assets	– 16	– 9
Purchase of property, plant and equipment	– 240	– 384
Payments for acquisitions	– 46	– 4
Proceeds on disposal of subsidiaries and business units	19	53
Proceeds on disposal of other non-current assets	43	47
Cash flow from investing activities/acquisitions	– 240	– 297
Dividends paid to shareholders of Henkel AG & Co. KGaA	– 225	– 307
Dividends (of subsidiaries) paid to non-controlling interests	– 19	– 16
Interest received	21	37
Interest paid	–181	– 200
Dividends and interest paid and received	*– 404*	*– 486*
Change in borrowings	– 174	– 181
Allocation to pension funds	– 312	– 46
Other changes in pension obligations	30	– 102
Purchase of non-controlling interests with no change of control	– 23	– 3
Other financing transactions	– 340	16
Cash flow from financing activities	– 1,223	– 802
Net change in cash and cash equivalents	388	463
Effect of exchange rates on cash and cash equivalents	17	2
Change in cash and cash equivalents	405	465
Cash and cash equivalents at January 1	1,110	1,515
Cash and cash equivalents at December 31	1,515	1,980

Additional voluntary information
Reconciliation to free cash flow

in million euros	2010	2011
Cash flow from operating activities	1,851	1,562
Purchase of intangible assets	– 16	– 9
Purchase of property, plant and equipment	– 240	– 384
Proceeds on disposal of other non-current assets	43	47
Net interest paid	– 160	– 163
Other changes in pension obligations	30	– 102
Free cash flow	1,508	951

Group segment report by business sector[1]

See Note 34 for further explanatory information

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

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

Key financials by region[1]

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

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

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

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

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

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

General information

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

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

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

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

Scope of consolidation

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

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

Acquisitions and divestments

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

Acquisitions
Effective January 1, 2011, we assumed control of Schwarzkopf Inc., Culver City, California, USA. We own 100 percent of the voting rights of the company. Having a direct presence in the US hair salon segment enables us to better exhaust the potential of this market. The purchase price paid was 42 million euros. Goodwill in the amount of 41 million euros was recognized. It is assumed that the capitalized goodwill is completely tax-deductible. Cash acquired in the amount of 1 million euros is shown in the consolidated statement of cash flows under payments for acquisitions. Customer and supplier relationships were capitalized in the amount of 3 million euros. The fair value applied to the acquired trade accounts receivable is 6 million euros.

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

In the second half of 2011, we spent 3 million euros acquiring outstanding non-controlling interests in Rilken Cosmetics Industry S.A., Athens, Greece. Effective December 31, 2011, we increased our shareholding from 50 percent to 78 percent with the purpose of acquiring 100 percent of the shares in the future. The difference between the previously held share of net assets and the purchase price was recognized in retained earnings.

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

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

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

Acquisitions

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

Goodwill 2011

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

Divestments

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

On May 31, 2011, we sold our shares in Henkel India Ltd., Chennai, India. The sale proceeds amounted to 29 million euros while the gain totaled 48 million euros. In the course of the divestment, bank liabilities amounting to 66 million euros were discharged.

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

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

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

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

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

Divestments and deconsolidation effects

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

Consolidation methods

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

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

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

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

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

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

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

Currency translation

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

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

Currency

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

Recognition and measurement methods

Summary of selected measurement methods

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

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

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

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

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

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

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

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

Reclassifications

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

Accounting estimates, assumptions and discretionary judgments

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

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

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

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

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

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

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

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

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

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

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

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

Accounting regulations not applied in advance of their effective date

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

Accounting regulations not applied in advance of their effective date

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

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

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

Accounting regulations not yet adopted into EU law

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

Accounting regulations not yet adopted into EU law

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

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

Notes to the consolidated statement of financial position

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

Non-current assets

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

The following unchanged, standardized useful lives are applied:

Useful life

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

(1) Intangible assets

Cost

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

Accumulated amortization

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

Net book values

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

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

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

Book values

Cash-generating units (summarized) in million euros	December 31, 2010 Trademarks and other rights with indefinite useful lives	December 31, 2010 Goodwill	December 31, 2011 Trademarks and other rights with indefinite useful lives	December 31, 2011 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

	December 31, 2010			December 31, 2011		
in million euros	Non-current	Current	Total	Non-current	Current	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

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

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

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

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

(5) Deferred taxes

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

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

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

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

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

(6) Inventories

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

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

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

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

Analysis of inventories

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

(7) Trade accounts receivable

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

(8) Cash and cash equivalents

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

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

(9) Assets held for sale

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

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

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

(10) Issued capital

Issued capital

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

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

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

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

On April 19, 2010, the Annual General Meeting of Henkel AG & Co. KGaA resolved to authorize the Personally Liable Partner to acquire, by April 18, 2015, ordinary or preferred shares of the corporation representing a nominal proportion of the capital stock of not more than 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may be used to operate the Stock Incentive Plan of the Henkel Group or transferred to third parties for the purpose of acquiring companies or investing in companies. Treasury stock may also be sold to third parties against payment in cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation.

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

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

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

(11) Capital reserve

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

(12) Retained earnings

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

(13) Other components of equity

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

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

(14) Non-controlling interests

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

(15) Pension obligations

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

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

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

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

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

Trends in wages, salaries and retirement benefits

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

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

Present value of pension obligations at December 31, 2010

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

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

Fair value of plan assets at December 31, 2010

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

Fair value of reimbursement rights at December 31, 2010

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

Net pension cost 2010

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

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

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

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

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

Present value of pension obligations at December 31, 2011

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

Fair value of plan assets at December 31, 2011

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

Fair value of reimbursement rights at December 31, 2011

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

Net pension cost 2011

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

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

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

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

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

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

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

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

Analysis of plan assets

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

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

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

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

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

Future pension payments

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

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

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

Effects of a trend change in medical costs

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

Multi-year summary

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

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

(16) Income tax provisions and other provisions

Development in 2011

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

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

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

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

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

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

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

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

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

Analysis of sundry provisions by function

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

(17) Borrowings

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

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

Bonds

Issuer	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

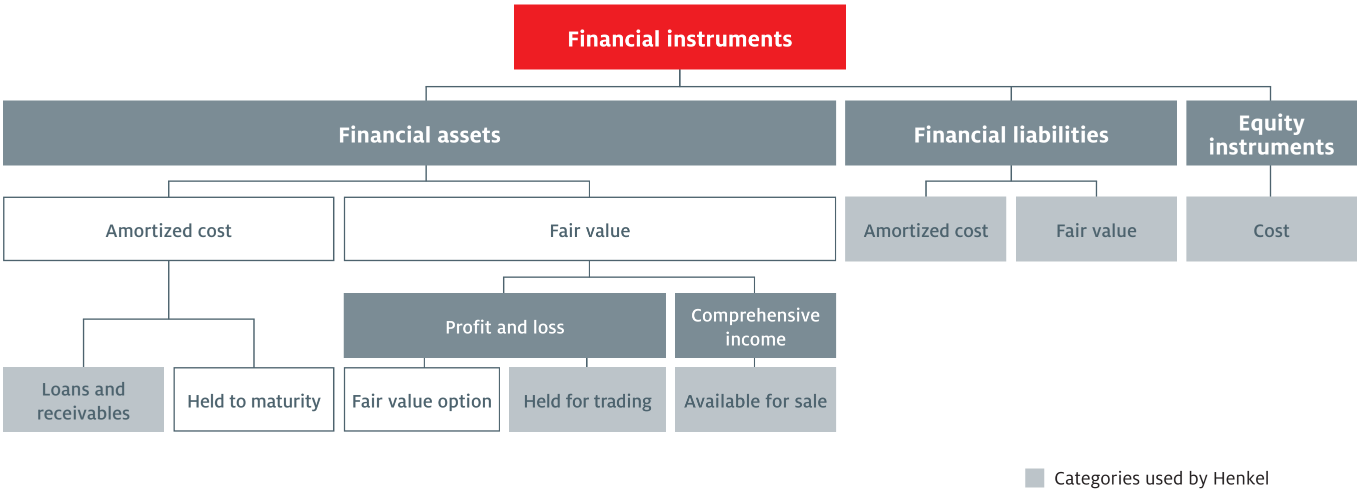
[1] Prior-year figures adjusted (see "Recognition and measurement methods" on AR pages 108 and 109).

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

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

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

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

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

Net gains and losses from financial instruments by category

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

Net results of the measurement categories and reconciliation to financial result

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

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

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

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

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

Derivative financial instruments

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

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

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

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

Derivative financial instruments

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

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

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

Interest rates in percent p.a.

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

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

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

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

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

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

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

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

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

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

Gains and losses from fair value hedges

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

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

Cash flow hedges
(after tax)

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

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

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

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

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

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

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

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

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

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

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

Credit risk

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

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

Maximum risk position

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

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

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

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

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

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

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

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

Age analysis of non-impaired overdue loans and receivables

Analysis

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

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

Liquidity risk

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

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

Our liquidity risk can therefore be regarded as very low.

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

Cash flows from financial liabilities

in million euros	December 31, 2010 Carrying amount	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: 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, multibank 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.

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).

Other disclosures

(32) Payroll cost

Payroll cost [1]

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

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

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

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

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

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

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

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

Option rights / Subscribable preferred shares

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

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

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

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

Black-Scholes option pricing model

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

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

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

Global Cash Performance Units (CPU) Plan

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

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

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

Cash Performance Units Program

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

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

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

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

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

(33) Employee structure

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

Number of employees per function

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

(34) Group segment report

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

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

Laundry & Home Care

The Laundry & Home Care business sector is globally active in the laundry and home care branded consumer goods business. The Laundry business includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers and laundry care products. The portfolio of our Home Care business encompasses hand-dishwashing and machine-dishwashing products, cleaners for bath and WC applications, and household, glass and specialty cleaners. We also have a market presence in selected regions with air fresheners and insecticides for household applications.

Cosmetics/Toiletries

The Cosmetics/Toiletries business sector is active in the Branded Consumer Goods business area with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as in the professional Hair Salon business.

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

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

In the Adhesives for Consumers, Craftsmen and Building segment, we market a wide range of brandname products for private and professional users. Based on our four international brand platforms, namely Loctite, Pritt, Pattex and Ceresit, we offer target group-aligned system solutions for applications in the household, in schools and offices, for do-it-yourselfers and craftsmen, and also for the building industry.

Our Transport and Metal business serves major international customers in the automotive and metal-processing industries, offering tailored system solutions and specialized technical services that cover the entire value chain from steel coating to final vehicle assembly.

Within the General Industry business, our customers comprise manufacturers from a multitude of industries, ranging from household appliance producers to the wind power industry. Our portfolio here encompasses Loctite products for industrial maintenance, repair and overhaul, as well as a wide range of sealants and system solutions for surface treatment applications, and specialty adhesives.

The Packaging, Consumer Goods and Construction Adhesives business serves major international customers as well as medium- and small-sized manufacturers of the consumer goods and furniture industries. Leveraging our economies of scale, we offer attractive solutions for standard and volume applications.

Our Electronics business offers customers from the worldwide electronics industry a comprehensive portfolio of innovative, high-tech adhesives and soldering materials for the manufacture of microchips and printed circuit boards.

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

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

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

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

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

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

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

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

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

(35) Earnings per share

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

Earnings per share

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

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

(36) Consolidated statement of cash flows

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

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

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

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

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

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

(37) Contingent liabilities

Analysis

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

(38) Other unrecognized financial commitments

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

Operating lease commitments

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

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

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

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

(39) Voting rights / Related party disclosures

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

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

The company has been notified that the share of voting rights of the parties to the Henkel share-pooling agreement at October 21, 2010 represents in total 53.21 percent of the voting rights (138,240,804 votes) in Henkel AG & Co. KGaA, and is held by
- 111 members of the families of the descendants of Fritz Henkel, the company's founder,
- four foundations set up by members of those families,
- one civil-law partnership set up by members of those families, and
- eight private limited companies set up by members of those families, seven limited partnerships with a limited company as general partner (GmbH & Co. KG) and one limited partnership (KG)

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

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

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

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

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

(40) Exercise of exemption options

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

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

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

(41) Remuneration of the corporate management

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

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

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

(43) Subsidiaries and other investments

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

(44) Auditor's fees and services

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

Type of fee

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

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

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

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

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

345,171,082.50 euros

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

Düsseldorf, January 27, 2012

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

Management Board

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

Statement of income

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

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

Balance sheet

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

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

Independent Auditor's Report

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

Report on the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

Düsseldorf, January 27, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

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

Michael Gewehr
Wirtschaftsprüfer
(German Public Auditor)"

Responsibility statement by the Personally Liable Partner

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

Düsseldorf, January 27, 2012

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

Corporate management of Henkel AG & Co. KGaA

Boards / memberships as defined by Section 125 (1) sentence 5 of the German Stock Corporation Act [AktG] as at January, 2012

Dipl.-Ing. Albrecht Woeste: Honorary Chairman of the Henkel Group

Supervisory Board of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chairwoman,
Private Investor, Düsseldorf

Born in 1969
Member since April 14, 2008

Memberships:
Henkel Management AG (Chairwoman)[1]
Henkel AG & Co. KGaA (Shareholders' Committee, Chairwoman)[2]
Heraeus Holding GmbH[1]

Winfried Zander*
Vice-chairman,
Chairman of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1954
Member since May 17, 1993

Jutta Bernicke*
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1962
Member since April 14, 2008

Dr. rer. nat. Kaspar von Braun
Astrophysicist, Pasadena

Born in 1971
Member since April 19, 2010

Johann-Christoph Frey
Commercial Executive, Klosters

Born in 1955
Member since September 23, 2009

Birgit Helten-Kindlein*
Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1964
Member since April 14, 2008

Prof. Dr. sc. nat. Michael Kaschke
Chairman of the Executive Board of Carl Zeiss AG, Oberkochen

Born in 1957
Member since April 14, 2008

Memberships:
Carl Zeiss Group mandates:
Carl Zeiss MicroImaging GmbH (Chairman)[1]
Carl Zeiss SMT GmbH (Chairman)[1]
Carl Zeiss Japan Co. Ltd. (Chairman), Japan[2]
Carl Zeiss Far East (Chairman), Hong Kong[2]
Carl Zeiss India Pte. Ltd. (Chairman), India[2]

Thomas Manchot
Private Investor, Düsseldorf

Born in 1965
Member since April 10, 2006

Mayc Nienhaus*
Member of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Unna site

Born in 1961
Member since January 1, 2010

Thierry Paternot
Operating Partner, Duke Street Capital, Paris

Born in 1948
Member since April 14, 2008

Memberships:
Eckes AG[1]
Bio DS SAS, France[2]
Freedom-FullSix SAS (Chairman), France[2]
Oeneo SA, France[2]

Andrea Pichottka*
Executive Assistant to the Executive Board Member Section 3 responsible for members, target groups, education IG Bergbau, Chemie, Energie, Hannover

Born in 1959
Member since October 26, 2004

Memberships:
Siltronic AG[1]

Dr. rer. nat. Martina Seiler*
(since January 1, 2012)
Chemist, Duisburg
Representative of the Senior Staff of Henkel AG & Co. KGaA

Born in 1971
Member since January 1, 2012

Prof. Dr. oec. publ. Theo Siegert
Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf

Born in 1947
Member since April 20, 2009

Memberships:
Deutsche Bank AG[1]
E.ON AG[1]
Merck KGaA[1]
DKSH Holding Ltd., Switzerland[2]
E. Merck OHG[2]

Edgar Topsch*
Member of the General Works Council of Henkel AG & Co. KGaA and Vice-chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site

Born in 1960
Member since August 1, 2010

Michael Vassiliadis*
Chairman of the Executive Committee of IG Bergbau, Chemie, Energie, Hannover

Born in 1964
Member since May 4, 1998

Memberships:
BASF SE[1]
K + S AG (Vice-chairman)[1]
STEAG GmbH (Vice-chairman)[1]

Dr.-Ing. E.h. Bernhard Walter
Former Chairman of the Executive Board of Dresdner Bank AG, Frankfurt/Main

Born in 1942
Member since May 4, 1998

Memberships:
Bilfinger Berger SE (Chairman)[1]
Daimler AG[1]
Deutsche Telekom AG[1]

Ulf Wentzien*
(until December 31, 2011)
Commercial Executive, Düsseldorf
Representative of the Senior Staff of Henkel AG & Co. KGaA

Born in 1963
Member from April 14, 2008

* Employee representative.
[1] Membership in statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Subcommittees of the Supervisory Board

Nominations Committee

Functions
The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members of the Supervisory Board (representatives of the shareholders).

Members
Dr. Simone Bagel-Trah, Chairwoman
Dr. Bernhard Walter
Johann-Christoph Frey

Audit Committee

Functions
The Audit Committee prepares the proceedings and resolutions of the Supervisory Board relating to the approval of the annual financial statements and the consolidated financial statements, and relating to ratification of the proposal to be put before the Annual General Meeting regarding appointment of the auditor. It also deals with accountancy, risk management and compliance issues.

Members
Dr. Bernhard Walter, Chairman
Prof. Dr. Theo Siegert, Vice-chairman
Dr. Simone Bagel-Trah
Birgit Helten-Kindlein
Michael Vassiliadis
Winfried Zander

Shareholders’ Committee of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chairwoman,
Private Investor, Düsseldorf

Born in 1969
Member since April 18, 2005

Memberships:
Henkel AG & Co. KGaA (Chairwoman) [1]
Henkel Management AG (Chairwoman) [1]
Heraeus Holding GmbH [1]

Dr. rer. pol. h.c. Christoph Henkel
Vice-chairman,
Managing Partner Canyon Equity LLC, London

Born in 1958
Member since May 27, 1991

Prof. Dr. oec. HSG Paul Achleitner
Member of the Executive Board of
Allianz SE, Munich

Born in 1956
Member since April 30, 2001

Memberships:
Bayer AG [1]
RWE AG [1]
Daimler AG [1]
Allianz Group mandates: Allianz Global Investors AG [1]
Allianz Investment Management SE (Chairman) [1]

Boris Canessa
Private Investor, Düsseldorf

Born in 1963
Member since September 19, 2009

Memberships:
Wilhelm von Finck Deutsche Family Office AG [1]

Stefan Hamelmann
Private Investor, Düsseldorf

Born in 1963
Member since May 3, 1999

Memberships:
Henkel Management AG (Vice-chairman) [1]

Prof. Dr. rer. pol. Ulrich Lehner
Former Chairman of the Management Board
of Henkel KGaA, Düsseldorf

Born in 1946
Member since April 14, 2008

Memberships:
Deutsche Telekom AG (Chairman) [1]
E.ON AG [1]
Henkel Management AG [1]
Porsche Automobil Holding SE [1]
ThyssenKrupp AG [1]
Dr. August Oetker KG [2]
Novartis AG, Switzerland [2]

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer
(since April 11, 2011)
Chairman of the Management Board
of Bayerische Motoren Werke AG, Munich

Born in 1956
Member since April 11, 2011

Konstantin von Unger
Founding Partner, Blue Corporate Finance AG,
London

Born in 1966
Member since April 14, 2003

Memberships:
Ten Lifestyle Management Ltd.,
Great Britain [2]

Karel Vuursteen
Former Chairman of the Executive Board
of Heineken N.V., Amsterdam

Born in 1941
Member since May 6, 2002

Memberships:
Akzo Nobel N.V. (Chairman), Netherlands [2]
Heineken Holding N.V., Netherlands [2]
Tom Tom N.V. (Chairman), Netherlands [2]

Werner Wenning
Former Chairman of the Executive Board
of Bayer AG, Leverkusen

Born in 1946
Member since April 14, 2008

Memberships:
Deutsche Bank AG [1]
E.ON AG (Chairman) [1]
HDI V.a.G. [1]
Talanx AG [1]
Freudenberg & Co. KG [2]

Subcommittees of the Shareholders’ Committee

Finance Subcommittee

Functions
The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, and risk management in the company.

Members
Dr. Christoph Henkel, Chairman
Stefan Hamelmann, Vice-chairman
Prof. Dr. Paul Achleitner
Prof. Dr. Ulrich Lehner
Dr. Norbert Reithofer (since April 11, 2011)

Human Resources Subcommittee

Functions
The Human Resources Subcommittee deals principally with personnel matters relating to members of the Management Board, issues pertaining to human resources strategy, and with remuneration.

Members
Dr. Simone Bagel-Trah, Chairwoman
Konstantin von Unger, Vice-chairman
Boris Canessa
Karel Vuursteen
Werner Wenning

[1] Membership in statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Management Board of Henkel Management AG *

Kasper Rorsted
Chairman of the Management Board

Born in 1962
Member since April 1, 2005 [3]

Memberships:
Bertelsmann AG [1]
Danfoss A/S, Denmark [2]

Jan-Dirk Auris
(since January 1, 2011)
Adhesive Technologies

Born in 1968
Member since January 1, 2011

Memberships:
Henkel Corporation (Chairman), USA [2]

Kathrin Menges
(since October 1, 2011)
Human Resources

Born in 1964
Member since October 1, 2011

Memberships:
Henkel Central Eastern Europe GmbH, Austria [2]
Henkel Norden AB, Sweden [2]
Henkel of America Inc., USA [2]
Henkel Norden Oy, Finland [2]

Bruno Piacenza
(since January 1, 2011)
Laundry & Home Care
(since March 1, 2011)

Born in 1965
Member since January 1, 2011

Dr. rer. soc. oec. Friedrich Stara
(until February 28, 2011)
Laundry & Home Care

Born in 1949
Member from July 1, 2005 [3]

Memberships:
Wiener Städtische Allgemeine Versicherung AG, Austria [2]

Dr. jur. Lothar Steinebach
Finance / Purchasing / IT / Legal

Born in 1948
Member since July 1, 2003 [3]

Memberships:
LSG Lufthansa Service Holding AG [1]
Henkel Adhesives Middle East E.C., Bahrain [2]
Henkel (China) Investment Co. Ltd., China [2]
Henkel & Cie AG, Switzerland [2]
Henkel Central Eastern Europe GmbH (Chairman), Austria [2]
Henkel Consumer Goods Inc. (Chairman), USA [2]
Henkel Ltd., Great Britain [2]
Henkel of America Inc. (Chairman), USA [2]
Henkel Technologies Egypt SAE, Egypt [2]
Türk Henkel Kimya Sanayi ve Ticaret AS (Chairman), Turkey [2]

Hans Van Bylen
Cosmetics/Toiletries

Born in 1961
Member since July 1, 2005 [3]

Memberships:
Henkel Belgium N.V., Belgium [2]
Henkel Nederland BV, Netherlands [2]
The Dial Corporation (Chairman), USA [2]

Supervisory Board of Henkel Management AG *

Dr. rer. nat. Simone Bagel-Trah
Chairwoman,
Private Investor, Düsseldorf

Born in 1969
Member since February 15, 2008

Memberships:
Henkel AG & Co. KGaA (Chairwoman) [1]
Henkel AG & Co. KGaA (Shareholders' Committee, Chairwoman) [2]
Heraeus Holding GmbH [1]

Stefan Hamelmann
Vice-chairman,
Private Investor, Düsseldorf

Born in 1963
Member since September 19, 2009

Memberships:
Henkel AG & Co. KGaA (Shareholders' Committee) [2]

Prof. Dr. rer. pol. Ulrich Lehner
Former Chairman of the Management Board of Henkel KGaA, Düsseldorf

Born in 1946
Member since February 15, 2008

Memberships:
Deutsche Telekom AG (Chairman) [1]
E.ON AG [1]
Porsche Automobil Holding SE [1]
ThyssenKrupp AG [1]
Henkel AG & Co. KGaA (Shareholders' Committee) [2]
Dr. August Oetker KG [2]
Novartis AG, Switzerland [2]

* Personally Liable Partner of Henkel AG & Co. KGaA.
[1] Membership in statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.
[3] Including membership of the Management Board of Henkel KGaA.

Further information

Corporate Senior Vice Presidents

Prof. Dr. Ramón Bacardit
Adhesive Technologies
Research

Georg Baratta-Dragono
Laundry & Home Care
Western Europe,
International Sales,
Customer Operations

Alain Bauwens
Laundry & Home Care
International Marketing Laundry Care,
New Business & Trends,
Latin America

Wolfgang Beynio
Corporate Functions
Finance/Controlling

Dr. Andreas Bruns
Corporate Functions
Infrastructure Services

Julian Colquitt
Adhesive Technologies
North America,
SBU General Industry

Bertrand Conquéret
Corporate Functions
Purchasing

Ashraf El Afifi
Laundry & Home Care
Middle East/North Africa,
President Africa/Middle East

Jean Fayolle
Adhesive Technologies
SBU Packaging Industry

Enric Holzbacher
Adhesive Technologies
Africa/Middle East,
SBU Consumer & Building Industry

Pascal Houdayer
Laundry & Home Care
International Marketing Home Care,
Digital, Export and
Business Development, Asia

Dr. Stefan Huchler
Cosmetics/Toiletries
Supply Chain/Packaging

Dr. Joachim Jäckle
Corporate Functions
Financial Operations

Patrick Kaminski
Cosmetics/Toiletries
Emerging Markets, Exports,
President Asia-Pacific

Paul Kirsch
Adhesive Technologies
SBU Transportation & Metal Industry

Carsten Knobel
Cosmetics/Toiletries
Financial Director,
Corporate Functions
Corporate Controlling

Dirk-Stephan Koedijk
Corporate Functions
Chief Compliance Officer

Norbert Koll
Cosmetics/Toiletries
Laundry & Home Care
North America
(since September 1, 2011)

Thomas Gerd Kühn
Corporate Functions
Legal, IP, Insurance

Dr. Marcus Kuhnert
Laundry & Home Care
Financial Director

Tina Müller
Cosmetics/Toiletries
Chief Marketing Officer Retail

Prof. Dr. Thomas Müller-Kirschbaum
Laundry & Home Care
R&D, Technology, Supply Chain

Michael Olosky
Adhesive Technologies
Asia-Pacific

Dr. Matthias Schmidt
Adhesive Technologies
Financial Director

Jens-Martin Schwärzler
Cosmetics/Toiletries
Western Europe, Germany,
International Sales
(since February 1, 2011)

Stefan Sudhoff
Cosmetics/Toiletries
Schwarzkopf Professional
(since September 1, 2011)

Alan Syzdek
Adhesive Technologies
SBU Electronics Industry

Günter Thumser
Laundry & Home Care
Eastern Europe
President Henkel
Central Eastern Europe

Carsten Tilger
Corporate Functions
Corporate Communications

Dr. Peter Wroblowski
Corporate Functions
Information Technology

SBU = Strategic Business Unit

Active personnel,
as at January 2012.

Management Circle I Worldwide

Hikaru Adachi
Aleksej Ananishnov
Giacomo Archi
Faruk Arig
Thomas Hans Jörg Auris

Dr. Kourosh Bahrami
Paul Berry
Cedric Berthod
Michael Biondolillo
Dr. Joachim Bolz
Oriol Bonaclocha
Guy Boone
Oliver Bossmann
Robert Bossuyt
Hanno Brenningmeyer
Daniel Brogan
Sergey Bykovskih

Angela Cackovich
Edward Capasso
Renata Casaro
Michelle Cheung
Adil Choudhry
Jürgen Convent
Susanne Cornelius
Matthias Czaja
Michael Czech

Dr. Nils Daecke
Paul De Bruecker
Ivan De Jonghe
Patrick De Meyer
Joseph DeBiase
Hermann Deitzer
Nicola delli Venneri
Raymond Dimuzio
Eric Dumez

Christoph Eibel
Wolfgang Eichstaedt
Simon Ellis
Steven Essick
Charles Evans

Ahmed Fahmy
Thomas Feldbrügge
Dr. Lars Feuerpeil
Dr. Peter Florenz
Dr. Thomas Förster
Timm Rainer Fries
Stephan Füsti-Molnár

Holger Gerdes
Roberto Gianetti
Dr. Karl W. Gladt
Michael Goder
Ralf Grauel
Peter Günther

Peter Hassel
Roswitha Heiland
Lars Hennemann
Georg Höbenstreit
Dr. Alois Hoeger
Katharina Höhne
Dr. Dirk Holbach
Jos Hubin
Jeremy Hunter

Dr. Regina Jäger

Dr. Dieter Kahling
Julio Muñoz Kampff
George Kazantzis
Thomas Keller
Michael Kellner
Klaus Keutmann
Dr. Christian Kirsten
Patrick Kivits
Rolf Knörzer
Nuri Erdem Koçak
Dr. Harald Köster

Luis Carlos Lacorte
Dr. Daniel Langer
Tom Linckens

Jasmin Manner
Alfredo Morales
Liam Murphy

Christoph Neufeldt
Sylvie Nicol
Heinz Nicolas

Joseph O'Brien
Björk Ohlhorst
Dr. Uwe Over

Ian Parish
Jerry Perkins
Jeffrey Piccolomini
Dr. Torsten Pilz

Michael Rauch
Gary Raykowitz
Birgit Rechberger-Krammer
Wolfgang Reiter
Dr. Michael Reuter
Robert Risse
Dr. Michael Robl
David Rodriguez
Steffen Ruebke

Norman Sack
Jean-Baptiste Santoul
Dr. Arndt Scheidgen
Dr. Berthold Schreck
Marie-Eve Schröder
Prof. Dr. Hans-Willi Schroiff
Dr. Zuzana Schütz-Halkova
Dr. Johann Seif

Dr. Simone Siebeke
Katrin Steinbüchel
Dr. Walter Sterzel
Klaus Strottmann
Monica Sun
Marco Swoboda
Csaba Szendrei

Makoto Tamaki
Dr. Boris Tasche
Agnès Thee
Michael G. Todd
Thomas Tönnesmann
Johnny Tong
Gordon Tredgold

Amélie Vidal-Simi

Dr. Tilo Weiss
Dr. Jürgen Wichelhaus
Dr. Hans-Christof Wilk
Dorian Williams
Bing Wu

Active personnel,
as at January 2012.

Quarterly breakdown of key financials

	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
in million euros	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Sales										
Laundry & Home Care	1,049	1,072	1,086	1,076	1,123	1,110	1,061	1,046	4,319	4,304
Cosmetics/Toiletries	762	821	865	881	845	860	797	836	3,269	3,399
Adhesive Technologies	1,651	1,884	1,890	1,963	1,945	2,020	1,820	1,879	7,306	7,746
Corporate	50	46	49	33	49	38	51	39	199	156
Henkel Group	3,512	3,823	3,890	3,953	3,961	4,028	3,729	3,800	15,092	15,605
Cost of sales	−1,829	−2,073	−2,074	−2,138	−2,106	−2,215	−2,069	−2,111	−8,078	−8,538
Gross profit	1,683	1,750	1,816	1,815	1,855	1,813	1,660	1,689	7,014	7,067
Marketing, selling and distribution expenses	−1,011	−1,057	−1,108	−1,063	−1,090	−1,041	−1,048	−971	−4,257	−4,132
Research and development expenses	−95	−103	−103	−105	−95	−103	−98	−99	−391	−410
Administrative expenses	−185	−187	−202	−196	−185	−209	−178	−193	−750	−785
Other operating charges and income	30	27	18	86	16	−9	43	13	107	117
EBIT										
Laundry & Home Care	151	100	137	157	139	125	115	129	542	511
Cosmetics/Toiletries	100	112	112	140	113	111	86	107	411	471
Adhesive Technologies	185	244	222	269	268	254	202	235	878	1,002
Corporate	−15	−27	−50	−29	−19	−38	−24	−32	−108	−127
Henkel Group	422	430	421	537	501	451	379	439	1,723	1,857
Investment result	–	–	–	–	–	1	1	−1	1	–
Net interest	−54	−37	−35	−41	−37	−38	−46	−39	−172	−155
Financial result	−54	−37	−35	−41	−37	−37	−45	−40	−171	−155
Earnings before tax	368	393	386	496	464	414	334	399	1,552	1,702
Taxes on income	−102	−103	−106	−121	−121	−100	−80	−95	−409	−419
Net income	266	290	280	375	343	314	254	304	1,143	1,283
– attributable to non-controlling interests	−7	−5	−7	−9	−6	−7	−5	−9	−25	−30
– attributable to shareholders of Henkel AG & Co. KGaA	259	285	273	366	337	307	249	295	1,118	1,253
Earnings per preferred share in euros	0.60	0.66	0.63	0.85	0.78	0.71	0.58	0.68	2.59	2.90

	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
in million euros	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
EBIT (as reported)	422	430	421	537	501	451	379	439	1,723	1,857
One-time gains	−32	–	−1	−57	−10	–	−16	–	−59	−57
One-time charges	–	–	9	–	–	–	5	2	14	2
Restructuring charges	31	43	47	34	26	90	80	61	184	227
Adjusted EBIT	421	473	476	514	517	541	448	502	1,862	2,029
Adjusted earnings per preferred share in euros	0.60	0.73	0.73	0.79	0.80	0.85	0.69	0.77	2.82	3.14

The quarterly figures are specific to the quarter to which they refer and have been rounded for commercial convenience.

Multi-year summary

in million euros		2005	2006	2007	2008[6]	2009	2010	2011
Sales		11,974	12,740	13,074	14,131	13,573	15,092	**15,605**
Operating profit (EBIT)		1,162	1,298	1,344	779	1,080	1,723	**1,857**
Earnings before tax		1,042	1,176	1,250	1,627	885	1,552	**1,702**
Net income		770	871	941	1,233	628	1,143	**1,283**
Net income attributable to shareholders of Henkel AG & Co. KGaA		757	855	921	1,221	602	1,118	**1,253**
Earnings per preferred share (EPS)[1]	in euros	1.77	1.99	2.14	2.83	1.40	2.59	**2.90**
Total assets		13,944	13,346	13,048	16,173	15,818	17,525	**18,579**
Non-current assets[2]		9,065	8,664	7,931	11,360	11,162	11,590	**11,848**
Current assets		4,879	4,682	5,117	4,813	4,656	5,935	**6,731**
Liabilities		8,545	7,799	7,342	9,539	9,274	9,575	**9,817**
Operating debt coverage ratio[3]	in %	39.9	48.4	71.6	45.1	41.8	71.4	**83.2**
Interest coverage ratio[3]		7.1	9.4	9.4	4.8	8.7	12.8	**14.6**
Equity		5,399	5,547	5,706	6,535	6,544	7,950	**8,762**
Equity ratio	in %	38.7	41.6	43.7	40.3	41.4	45.4	**47.2**
Net return on sales[4]	in %	6.4	6.8	7.2	8.7	4.7	7.6	**8.2**
Return on equity[5]	in %	17.7	16.1	17.0	21.6	9.6	17.5	**16.1**
Dividend per ordinary share	in euros	0.43	0.48	0.51	0.51	0.51	0.70	**0.78**[7]
Dividend per preferred share	in euros	0.45	0.50	0.53	0.53	0.53	0.72	**0.80**[7]
Total dividends		193	214	227	227	227	310	**345**[7]
Capital expenditures (including financial assets)		1,119	897	548	4,074	415	260	**443**
Investment ratio	as % of sales	9.3	7.0	4.2	28.8	3.0	1.7	**2.8**
Research and development expenses		324	340	350	429	396	391	**410**
Number of employees[8]	(at December 31)	52,101	51,819	52,628	55,142	49,262	47,854	**47,265**
of which in Germany		10,224	9,981	9,820	9,747	8,830	8,580	**8,322**
of which abroad		41,877	41,838	42,808	45,395	40,432	39,274	**38,943**

[1] Basis: share split (1:3) of June 18, 2007.
[2] Prior-year figures adjusted (see “Recognition and measurement methods” on AR pages 108 and 109).
[3] See AR page 63 for formula.
[4] Net income divided by sales.
[5] Net income divided by equity at the start of the year.
[6] Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses.
[7] Proposed.
[8] Basis: permanent employees excluding apprentices.

Glossary

Adjusted EBIT
Earnings before interest and taxes adjusted for exceptional items in the form of one-time charges, one-time gains and restructuring charges.

Beta factor
Reflects the systemic risk (market risk) of a share price compared to a certain index (stock market average): in the case of a beta factor of 1.0, the share price fluctuates to the same extent as the index. If the factor is less than 1.0, this indicates that the share price undergoes less fluctuation, while a factor above 1.0 indicates that the share price fluctuates more than the market average.

Capital employed
Interest-bearing capital invested in company assets and operations.

Cash flows
Inflows and outflows of cash and cash equivalents divided within the statement of cash flows into cash flows from ordinary activities, from investing and acquisition activities, and from financing activities.

Commercial papers
Short-term bearer bonds with a promise to pay, issued for the purpose of generating short-term debt capital.

Compliance
Acting in conformity with applicable regulations; adherence to laws, rules, regulations and in-house or corporate codes of conduct.

Compound annual growth rate
Year over year rate of growth, e.g. of an investment, over a defined period.

Corporate governance
System of management and control, primarily within listed companies. Describes the powers and authority of corporate management, the extent to which these need to be monitored and the extent to which structures should be put in place through which certain interest/stakeholder groups may exert influence on the corporate management.

Corporate Governance Code (Kodex)
The Kodex is intended to render the rules applicable in Germany governing corporate management and control transparent for national and international investors, engendering trust and confidence in the corporate management of German companies.

Credit default swap
Instrument used by Henkel to evaluate the credit risks of banks.

Credit facility
Aggregate of all loan services available on call from one or several banks as cover for an immediate credit requirement.

DAX®
Abbreviation for Deutscher Aktienindex, the German share index. The DAX lists the stocks and shares of Germany's 30 largest listed corporations. Henkel's preferred shares are quoted on the DAX. DAX is a registered trademark of Deutsche Börse AG, the German stock exchange company.

Declaration of conformity
Declaration made by the management/executive board and supervisory board of a company according to Section 161 of the German Stock Corporation Act [AktG], confirming implementation of the recommendations of the Governmental Commission for the German Corporate Governance Code (Kodex).

Deferred taxes
In accordance with International Accounting Standard (IAS) 12, deferred taxes are recognized with respect to temporary differences between the statement of financial statement valuation of an asset or a liability and its tax base, unused tax losses and tax credits.

Defined benefit plans
Post-employment benefit plans other than defined contribution plans.

Defined contribution plans
Post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Derivative
Financial instrument, the value of which changes in response to changes in an underlying asset or an index, which will be settled at a future date and which initially requires only a small or no investment.

Divestment
Disposal, sale or divestiture of an asset, operation or business unit.

Earnings per share (EPS)
Metric indicating the income of a joint stock corporation divided between the weighted average number of its shares outstanding. The calculation is performed in accordance with International Accounting Standard (IAS) 33.

EBIT
Abbreviation for Earnings before Interest and Taxes. Standard profit metric that enables the earning power of the operating business activities of a company to be assessed independently of its financial structure, enabling comparability between entities where these are financed by varying levels of debt capital.

EBITDA
Abbreviation for Earnings before Interest, Taxes, Depreciation and Amortization.

Economic value added (EVA®)
The EVA concept reflects the net wealth generated by a company over a certain period. A company achieves positive EVA when the operating result exceeds the weighted average cost of capital. The WACC corresponds to the yield on capital employed expected by the capital market. EVA is a registered trademark of Stern Stewart & Co.

Equity ratio
Financial metric indicating the ratio of equity to total capital. It expresses the share of total assets financed out of equity (owners' capital) rather than debt capital (provided by lenders). Serves to assess the financial stability and independence of a company.

Fair value
Amount at which an asset or a liability might be exchanged or a debt paid in an arm's length transaction between knowledgeable, willing parties.

Free cash flow
Cash flow actually available for acquisitions, dividend payments and the reduction of borrowings.

Goodwill
Amount by which the total consideration for a company or a business exceeds the netted sum of the fair values of the individual, identifiable assets and liabilities.

Gross margin
Indicates the percentage by which a company's sales exceed cost of sales, i.e. the ratio of gross profit to sales.

Gross profit
Difference between sales and cost of sales.

Hedge accounting
Method for accounting for hedging transactions whereby the compensatory effect of changes in the fair value of the hedging instrument (derivative) and of the underlying asset or liability is recognized in either the statement of income or the statement of comprehensive income.

Hybrid bond
Equity-like corporate bond, usually with no specified date of maturity, or with a very long maturity, characterized by its subordination in the event of the issuer becoming insolvent.

IAS/IFRS
Abbreviation for International Accounting Standards and International Financial Reporting Standards respectively. In Europe, capital market-oriented companies are generally required to prepare consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the European Union. Standards issued before 2003 are known as IAS, those since that date are IFRS.

KGaA
Abbreviation for "Kommanditgesellschaft auf Aktien." A KGaA is a company with a legal identity (legal entity) in which at least one partner has unlimited liability with respect to the company's creditors (personally liable partner), while the liability for such debts of the other partners participating in the share-based capital stock is limited to their share capital (limited shareholders).

Long-term incentive (LTI)
Bonus aligned to long-term financial performance.

Market capitalization
Market value of a company calculated from the number of shares issued multiplied by their list price as quoted on the stock exchange.

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

Net working capital
Net balance of inventories, trade accounts receivable, and trade accounts payable.

Non-controlling interests
Proportion of equity attributable to third parties in subsidiaries included within the scope of consolidation. Previously termed "minority interests." Valued on a proportional net asset basis. A pro-rata portion of the net earnings of a corporation is due to shareholders owning non-controlling interests.

Organic sales growth
Growth in revenues after adjusting for effects arising from acquisitions, divestments and foreign exchange differences – i.e. "top line" growth generated from within.

Payout ratio
Indicates what percentage of annual net income (adjusted for exceptional items) is paid out in dividends to shareholders, including non-controlling interests.

Rating
Assessment of the creditworthiness of a company as published by rating agencies.

Return on capital employed (ROCE)
Profitability metric reflecting the ratio of earnings before interest and taxes (EBIT) to capital employed.

Return on sales (EBIT)
Operating business metric derived from the ratio of EBIT to revenues.

Scope of consolidation
The scope of consolidation is the aggregate of companies incorporated in the consolidated financial statements.

Share of advertising/Share of market
A company's share of total advertising spend in relation to its market share, specific to its active markets.

Short-term incentive (STI)
Bonus aligned to short-term financial performance.

Supply chain
Encompasses purchasing, production, storage, transport, customer services, requirements planning, production scheduling and supply chain management.

Swap
Term given to the exchange of capital amounts in differing currencies (currency swap) or of different interest obligations (interest swap) between two entities.

Value at risk
Method, based on fair value, used to calculate the maximum likely or potential future loss arising from a portfolio.

Viral online marketing campaign
A form of internet marketing aimed at generating digital WOM ("word of mouth") via e-mail, social networks and/or video networks in order to get a product or brand quickly known. The term "viral" alludes to the manner by which the information spreads – like a virus.

Volatility
Measure of fluctuation and variability in the prices quoted for securities, in interest rates and in foreign exchange rates.

Weighted average cost of capital (WACC)
Average return on capital, calculated on the basis of a weighted average of the cost of debt and equity. WACC represents the minimum return expected of a company by its lenders for financing its assets.

Credits

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Financial calendar

Annual General Meeting
Henkel AG & Co. KGaA 2012:
Monday, April 16, 2012

Publication of Report
for the First Quarter 2012:
Wednesday, May 9, 2012

Publication of Report
for the Second Quarter / Half Year 2012:
Wednesday, August 1, 2012

Publication of Report
for the Third Quarter / Nine Months 2012:
Friday, November 16, 2012

Publication of Report
for Fiscal 2012:
Thursday, February 28, 2013

Annual General Meeting
Henkel AG & Co. KGaA 2013:
Monday, April 15, 2013

Up-to-date facts and figures on Henkel also available on the internet:
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This document contains forward-looking statements which are based on the current estimates and assumptions made by the executive management of Henkel AG & Co. KGaA. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by Henkel AG & Co. KGaA and its affiliated companies depend on a number of risks and uncertainties, and may therefore differ materially from the forward-looking statements. Many of these factors are outside Henkel's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. Henkel neither plans nor undertakes to update forward-looking statements.

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