Annual Report 2013

Henkel Excellence is our Passion

Henkel at a glance 2013

Highlights

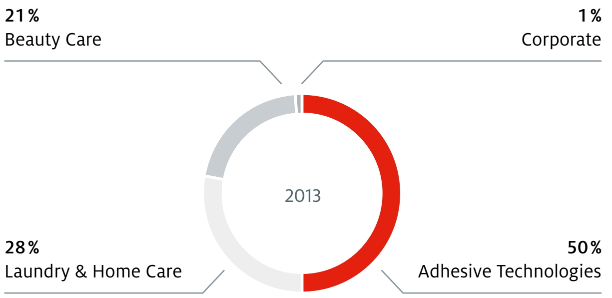
Sales	EBIT	EPS	Dividend
+3.5 %	15.4 %	4.07 euros	1.22 euros
organic sales growth	adjusted[1] return on sales (EBIT): up 1.3 percentage points	adjusted[1] earnings per preferred share (EPS): up 10.0 percent[2]	dividend per preferred share[3]

Key financials

in million euros	2009	2010	2011	2012[4]	2013	+/– 2012 – 2013
Sales	13,573	15,092	15,605	16,510	**16,355**	– 0.9 %
Operating profit (EBIT)	1,080	1,723	1,765	2,199	**2,285**	3.9 %
Adjusted[1] operating profit (EBIT)	1,364	1,862	2,029	2,335	**2,516**	7.8 %
Return on sales (EBIT) in %	8.0	11.4	11.3	13.3	**14.0**	0.7 pp
Adjusted[1] return on sales (EBIT) in %	10.0	12.3	13.0	14.1	**15.4**	1.3 pp
Net income	628	1,143	1,191	1,526	**1,625**	6.5 %
– Attributable to non-controlling interests	– 26	– 25	– 30	– 46	**– 36**	– 21.7 %
– Attributable to shareholders of Henkel AG & Co. KGaA	602	1,118	1,161	1,480	**1,589**	7.4 %
Earnings per preferred share in euros	1.40	2.59	2.69	3.42	**3.67**	7.3 %
Adjusted[1] earnings per preferred share in euros	1.91	2.82	3.14	3.63	**4.07**	12.1 %
Adjusted[1] earnings per preferred share in euros (2012 before IAS 19 revised)				3.70	**4.07**	10.0 %
Return on capital employed (ROCE) in %	9.8	14.9	15.8	18.7	**20.5**	1.8 pp
Dividend per ordinary share in euros	0.51	0.70	0.78	0.93	**1.20[3]**	29.0 %
Dividend per preferred share in euros	0.53	0.72	0.80	0.95	**1.22[3]**	28.4 %

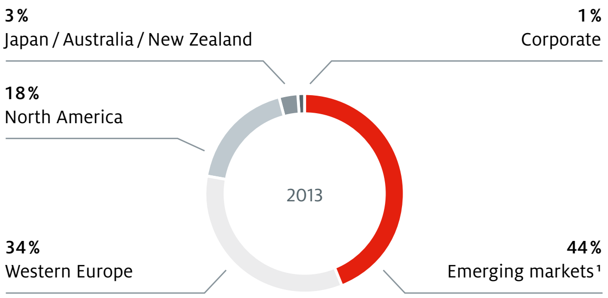
pp = percentage points
[1] Adjusted for one-time charges/gains and restructuring charges.
[2] When applying IAS 19 revised to the prior year, growth amounts to +12.1 percent.
[3] Proposal to shareholders for the Annual General Meeting on April 4, 2014.
[4] Adjusted in application of IAS 19 revised (see notes on page 116).

Sales by business unit



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

Sales by region



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

Our business units

Laundry & Home Care

+5.7 %

organic sales growth

Key financials

in million euros	2012	2013	+/–
Sales	4,556	**4,580**	0.5 %
Operating profit (EBIT)	621	**682**	9.7 %
Adjusted[1] operating profit (EBIT)	659	**714**	8.5 %
Return on sales (EBIT)	13.6 %	**14.9 %**	1.3 pp
Adjusted[1] return on sales (EBIT)	14.5 %	**15.6 %**	1.1 pp

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

Sales
in million euros

Beauty Care

+3.0 %

organic sales growth

Key financials

in million euros	2012	2013	+/–
Sales	3,542	**3,510**	– 0.9 %
Operating profit (EBIT)	483	**474**	– 1.9 %
Adjusted[1] operating profit (EBIT)	514	**525**	2.1 %
Return on sales (EBIT)	13.6 %	**13.5 %**	– 0.1 pp
Adjusted[1] return on sales (EBIT)	14.5 %	**15.0 %**	0.5 pp

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

Sales
in million euros

Adhesive Technologies

+2.7 %

organic sales growth

Key financials

in million euros	2012	2013	+/–
Sales	8,256	**8,117**	– 1.7 %
Operating profit (EBIT)	1,191	**1,271**	6.7 %
Adjusted[1] operating profit (EBIT)	1,246	**1,370**	9.9 %
Return on sales (EBIT)	14.4 %	**15.7 %**	1.3 pp
Adjusted[1] return on sales (EBIT)	15.1 %	**16.9 %**	1.8 pp

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

Sales
in million euros

Our top brands

Persil
Purex
Pril
Schwarzkopf
Dial
syoss
LOCTITE
TEROSON
TECHNOMELT

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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 Strategy

We will outperform our competition as a globalized company with simplified operations and a highly inspired team!

Our targets 2016

20 bn € sales

10 bn € sales in emerging markets

10 % annual growth in earnings per share[1]

[1] Average annual growth in adjusted earnings per preferred share (compound annual growth rate/CAGR).

Including continuous portfolio optimization.

Kasper Rorsted
Chairman of the
Management Board

"We focus on implementing our strategy globally in order to deliver on our ambitious targets."

Dear Friends of the Company,

2013 was a very important year for Henkel: We met our financial targets in a challenging market environment. At the same time, we made substantial progress toward our vision for Henkel – to be a global leader in brands and technologies.

Our actions and decisions are guided by a clear strategy for 2016: We will outperform our competition as a globalized company with simplified operations and a highly inspired team. Executing this strategy will enable us to meet our ambitious financial targets for the same period: 20 billion euros sales, 10 billion euros emerging market sales and 10 percent compound annual growth (CAGR) in adjusted[1] earnings per preferred share (EPS).

Strong business performance in 2013

In 2013, the difficult economic situation in the eurozone continued to affect consumer and industrial demand. In the United States, the economy has recovered, but was impacted by uncertainty about government budget and fiscal policy. As in previous years, emerging markets were the main growth drivers. However, they had to face currency devaluation and political instability as well as slower growth compared to previous years.

Henkel Group revenue amounted to 16,355 million euros, representing an organic growth of 3.5 percent over 2012. Nominal growth was slightly negative, substantially impacted by exchange rate developments. Adjusted[1] earnings before interest rates and taxes (EBIT) grew by 7.8 percent to 2,516 million euros compared to 2,335 million euros in 2012. Adjusted[1] return on sales increased to 15.4 percent compared to 14.1 percent in 2012. Adjusted[1] earnings per preferred share (EPS) rose by 10.0 percent to 4.07 euros.

+3.5 %
organic sales growth.

15.4 %
adjusted[1] return on sales.

+10.0 %
adjusted[1] earnings per preferred share.

Thanks to our continued focus on cost and strong business performance, our cash flow from operating activities totaled 2,116 million euros at the end of 2013. We were able to turn net debt of 85 million euros at the end of 2012 into a net financial position of 959 million euros at the end of 2013.

Our increased profitability and financial strength allow us to raise the proposed dividend payout ratio for fiscal 2013 to around 30 percent of adjusted[1] net income after non-controlling interests – without impacting our strategic flexibility and our conservative financial strategy. At the Annual General Meeting on April 4, 2014, we will propose to shareholders a dividend payout of 1.22 euros per preferred share. This represents an increase of 28 percent compared to 0.95 euros in 2013.

Delivering on our strategy

In order to drive the consistent execution of our strategy and deliver on our financial targets, we made sure that every employee knows and understands what we are aiming for and how they can contribute to our four strategic priorities:

Outperform – Globalize – Simplify – Inspire.

In a global survey of our 10,000 management employees, more than 90 percent of the respondents said that they know our strategy and understand how it relates to their business, teams and objectives. In this report we outline how our strategic priorities have guided everyone at Henkel throughout the year.

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

Outperform our competition

In 2013, our three business units continued to gain market shares in their relevant markets and deliver profitable growth. This successful development was driven by focusing on our top brands, powerful innovations and a clear focus on our customers.

57 %
of sales generated by top 10 brands.

The share of sales from our top 10 brands, including Persil, Schwarzkopf and Loctite, increased to 57 percent. As our top brands generate higher margins and strengthen our position against the competition, we aim to grow their share of sales to 60 percent by 2016.

Strong product innovations across all business units were a critical success factor. In our consumer businesses, 45 percent of sales came from products launched within the last three years. In our adhesives business, 30 percent of sales were generated with products introduced within the last five years.

In order to move our innovation processes closer to where we see future growth opportunities, we plan to open or expand seven R&D centers in emerging markets. 2013 saw the opening of four centers located in India, South Africa, South Korea and the United Arab Emirates and a significant expansion of our R&D center in Russia.

Regular “top-to-top” exchanges with our largest customers – major retailers and industrial customers – at board level help to align our business toward their expectations and growth ambitions. In 2013, we further strengthened the close relationships with our most important customers, helping us to generate a growing share of sales with them.

Globalize our company

By 2016 we aim to generate 20 billion euros in total sales for Henkel – 10 billion euros in emerging markets and 10 billion euros in mature markets. These are ambitious targets.

44 %
of sales generated in emerging markets.

Emerging markets will continue to drive global economic growth, and Henkel has a strong foundation in many of these markets. In 2013, we were able to increase emerging market sales to 44 percent of total sales. However, they are also characterized by high volatility and intense competition. In order to succeed, we will strengthen our existing positions, grow our businesses by expanding into new segments and selectively enter into new markets.

In mature markets, we hold leading positions with our strong brands across a broad range of categories. While sales remained almost flat compared to 2012, we were able to further increase our profitability in these markets. In light of low growth expectations for many mature markets, we will continue to adapt and optimize our structures and processes in order to deliver profitable growth.

Simplify our operations

Standardizing, digitizing and accelerating our processes will drive our operational excellence. In 2013, we laid the foundation for improving our cost efficiency and competitiveness through a broad range of strategic initiatives.

We combined our IT and our shared services into a new Integrated Business Solutions (IBS) organization. This change will enable us to advance efficient end-to-end processes based on standardized and scalable business platforms.

By increasing the share of eSourcing we are improving our cost efficiency and flexibility. In 2013, we prepared the consolidation of our sourcing activities into eight global sourcing hubs. We also plan to combine and further align our supply chain and sourcing activities toward an integrated global supply chain organization across all business units. This will help to substantially improve our competitiveness in the coming years.

Inspire our people

Our success is built on a strong global team. We provide an inspiring, challenging and rewarding work environment for our employees around the world. We put particular emphasis on strengthening leadership, attracting and developing talents, fostering a strong performance culture, and promoting diversity in all our teams.

In a globalized world, a diverse workforce becomes a competitive advantage. We employ people from more than 120 nations at Henkel. Around 56 percent of our employees work in emerging markets – not only in manufacturing and supply chain, but a growing share in managerial and R&D roles. The share of female managers increased to around 32 percent.

Around 32 %
of our managers are women.

As Henkel becomes more global and diverse, it is crucial that every leader knows and understands what is expected of them. Consequently, we developed a set of clear leadership principles which were successfully embedded all over the world in a series of workshops for all employees with people responsibility.

Committed to leadership in sustainability

We made further progress with implementing our long-term sustainability strategy. By 2030, we want to triple our resource efficiency – or as we call it: improve by "Factor 3." To ensure we deliver on our ambitious long-term targets, we also defined intermediate targets at five-year intervals. In 2013, for the seventh consecutive year, we were named sector leader in the Dow Jones Sustainability Index and held leading positions in many other rankings.

Factor 3

Focus on implementing our strategy

In summary, 2013 was a very successful and important year for Henkel. On behalf of the Management Board, I would like to thank all Henkel employees for their contribution to this successful business performance. I would like to extend our special thanks to our supervisory bodies for their valuable support. On behalf of Henkel, 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, our brands and our technologies.

We are fully committed to delivering on our targets. With a strong focus on implementing our strategy globally, we strive to continue our excellent performance.

Düsseldorf, January 30, 2014

Sincerely,

Kasper Rorsted
Chairman of the Management Board

Dr. Simone Bagel-Trah
Chairwoman of the Shareholders' Committee and the Supervisory Board

"2013 was another successful year for Henkel. All of our business units contributed with organic sales growth and a substantial increase in profitability. This is an excellent result."

Dear Shareholders and Friends of the Company,

2013 was another successful year for Henkel. All of our business units contributed with organic sales growth and a substantial increase in profitability. Given the extremely volatile nature of our markets, accompanied by intensive competition, political upheavals in the Middle East and North Africa as well as the continuing uncertainty from the debt crisis, this is an excellent result.

On behalf of the Supervisory Board, I would like to thank all Henkel employees for their exceptional commitment, without which we would not have been able to achieve these results. Thanks are equally due to the members of the Management Board who have steered the company successfully and to our employee representatives and Works Councils for their continuous and constructive support in moving our company forward.

To you, our shareholders, I offer my special thanks for the confidence you have once again placed in our company, its management and employees as well as our products and services this past fiscal year.

Ongoing dialog with the Management Board

In fiscal 2013, we again diligently discharged our duties as the Supervisory Board in accordance with the legal statutes, Articles of Association and rules of procedure governing our actions. In particular, 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 dialog based on mutual trust and confidence. The Management Board kept us fully informed of all major issues affecting the company and its Group companies with prompt written and oral reports on a regular basis. In this regard, the Management Board specifically presented the business situation, operational development, business policy, profitability issues, and our short-term and long-term corporate, financial and personnel planning, as well as explaining capital expenditures and organizational measures. The quarterly reports focused on the sales and profits of Henkel Group as a whole, with further analysis by business unit and region. Members of the Supervisory Board always had sufficient opportunity to critically examine and address the issues raised by these reports

Outside of Supervisory Board meetings, the Chairman of the Audit Committee and I, as Chairwoman of the Supervisory Board, remained in regular contact with the Chairman of the Management Board. We therefore remained informed of current business developments and major occurrences at all times. The other members were informed of significant matters no later than by the next Supervisory Board or committee meeting.

The Supervisory Board and the Audit Committee each held four regular meetings in fiscal 2013. Attendance at the Supervisory Board meetings averaged 97 percent in the year under review. No member took part in fewer than half of the Supervisory Board and committee meetings. All members of the Audit Committee participated in the committee meetings.

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 each of our meetings, we discussed the reports submitted by the Management Board, conferring with it on the development of the corporation and on strategic issues.

In our meeting on February 26, 2013, we dealt primarily with the approval of the annual and consolidated financial statements for 2012, including the risk report and corporate governance report, the 2013 Declaration of Compliance, and our proposals for resolution by the 2013 Annual General Meeting. A detailed report on these matters was included in our last Annual Report.

In addition to the general performance of the business units, our meeting on April 15, 2013 focused on our sustainability strategy and its implementation. We addressed the general trends and challenges of sustainable development and the goals and progress of the company, including the confirmation of Henkel's leading position in the field of sustainability as determined by external assessments.

We discussed in depth our new organizational unit, Integrated Business Solutions, at our meeting on September 24, 2013. This new unit combines our IT organization and our shared services. This integration of technology and process competence, together with a corresponding consolidation of external services, improves our process quality and transparency. In addition, innovative solutions can be implemented across the entire process chain. In this meeting, we also closely examined the performance and the strategies of our business units, and human resources management in the Asia-Pacific region.

Based on comprehensive documentation, our meeting on December 13, 2013, focused in detail on our assets and financial planning for fiscal 2014, and the budgets of our business units.

Supervisory Board committees

In order to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we have established an Audit Committee and a Nominations Committee. The Audit Committee was chaired in the year under review by Prof. Dr. Theo Siegert, who complies with the statutory requirements of impartiality and expertise in the fields of accounting or auditing. For more details on the responsibilities and composition of these committees, please refer to the corporate governance report on pages 25 to 33 and the membership lists on page 171.

Committee activities

The Audit Committee mandated the external auditor, pursuant to the latter's appointment by the 2013 Annual General Meeting, to audit the annual financial statements and the consolidated financial statements for fiscal 2013, and also to review the interim financial reports for fiscal 2013. 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.

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.

All Audit Committee meetings focused on the company and 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 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 closely examined the accounting process and the efficacy and further development of the internal Group-wide control and risk management system. In addition, the Audit Committee received the status reports of the General Counsel & 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.

At its meeting on February 17, 2014, attended by the auditor, the Audit Committee discussed the annual and consolidated financial statements for fiscal 2013, including the audit reports, the future dividend policy, the associated proposal for appropriation of profits for the 2013 dividend, and the risk report. It 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 by the Annual General Meeting relating to the appointment of the external auditor for fiscal 2014. A declaration from the auditor asserting its independence was again duly received, accompanied by details pertaining to non-audit services rendered in fiscal 2013 and those envisioned for fiscal 2014. There was no evidence of any bias or partiality on the part of the auditor. As in previous years, other members of the Supervisory Board also took part as guests in this specifically audit-related meeting of the Audit Committee.

On the basis of the objectives agreed by the Supervisory Board with respect to its future composition, the members of the Nominations Committee made appropriate recommendations in preparation for the court appointment of Barbara Kux as shareholders' representative to the Supervisory Board succeeding Thierry Paternot.

Efficiency audit

The Supervisory Board and Audit Committee regularly review the efficiency with which they perform their duties. The review is administered using a comprehensive, company-specific checklist that forms the basis of discussions conducted by the plenary Supervisory Board and the Audit Committee. The checklist covers relevant important aspects such as meeting preparation and process, the scope and content of documents – particularly with respect to the preparation of financial reports and audits – as well as financial control and risk management. Issues relating to corporate governance and improvement opportunities are also addressed as part of the efficiency audit.

The results of this assessment were discussed in detail in the meeting of the Audit Committee on February 17, 2014 and the meeting of the Supervisory Board on February 18, 2014. The procedure confirmed the efficiency with which the Supervisory Board and Audit Committee carry out their duties as well as the required independence of their membership.

Corporate governance and declaration of compliance

In fiscal 2013, we again dealt with questions of corporate governance and specifically discussed our objectives with respect to Supervisory Board composition and independence. Further details on this and Henkel's corporate governance in general can be found in the corporate governance report (on pages 25 to 33), with which we fully acquiesce.

At our meeting on February 18, 2014, 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 (DCGK) for 2014. 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 and management report of Henkel AG & Co. KGaA 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 2013 by the last Annual General Meeting – KPMG – has examined the 2013 annual financial statements of Henkel AG & Co. KGaA and the 2013 consolidated financial statements, including the management reports. KPMG conducted the audit in accordance with Section 317 HGB and the 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). The annual financial statements and the consolidated financial statements were certified without qualification.

> "Henkel is well equipped for the coming issues and changes this year, and we look forward to the further development of our company with confidence."

KPMG reports that the annual financial statements give a true and fair view of the net assets and financial position of Henkel AG & Co. KGaA on December 31, 2013 as well as the results of operations for the fiscal year ended on this date, in accordance with German generally accepted accounting principles. The consolidated financial statements give a true and fair view of the net assets and financial position of Henkel Group on December 31, 2013 as well as the results of operations for the fiscal year ended on this date in compliance with International Financial Reporting Standards as endorsed by the European Union 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 presented in good time to all members of the Supervisory Board. We examined these documents and discussed them at our meeting of February 18, 2014. 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. We have agreed to the result of the audit. The assessment by the Management Board of the position of the company and the Group coincides with our own appraisal. At our meeting of February 18, 2014, 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 extensively discussed the future dividend policy: Depending on the company's net assets, earnings position, and financial needs, it intends in the future to propose a dividend payout ratio between 25 and 35 percent of net income adjusted for non-controlling interests and exceptional items. Additionally, we discussed and approved the proposal by the Management Board to pay out of the unappropriated profit of Henkel AG & Co. KGaA a dividend of 1.20 euros per ordinary share and of

1.22 euros per preferred share, and to carry the remainder and 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 company, its medium-term financial and investment planning, and the interests of our shareholders. We consider the proposed dividends to be reasonable and appropriate.

In our meeting on February 18, 2014, we also ratified our proposal for resolution to be presented before the Annual General Meeting relating to the appointment of the external auditor for the next fiscal 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, with emphasis 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

The Supervisory Board underwent a number of changes, some of which were reported last year.

Effective January 14, 2013, Thierry Paternot resigned his seat on the Supervisory Board for personal reasons. Barbara Kux joined the Supervisory Board as his successor on July 3, 2013 through court appointment.

In connection with the election of the employee representatives, which took effect at the close of the Annual General Meeting on April 15, 2013, Michael Vassiliadis left and Peter Hausmann joined the Supervisory Board. The other employee representatives were re-elected. During the constituent meeting, Winfried Zander was again elected as Vice-chairman of the Supervisory Board and I was confirmed as Chairwoman. In addition, we again elected the members of the Audit and Nominations Committees or confirmed them in their offices. We are sincerely grateful to all former members of the Supervisory and Management Boards, who worked tirelessly in driving Henkel's successful development.

There were no changes to the Management Board in the year under review.

The year ahead will once again present great challenges to all of our employees and management. Many of the issues and changes that shaped 2013 will continue through 2014. Henkel is well equipped for these challenges and we look toward the further development of our company with confidence.

We thank you for your ongoing trust and support.

Düsseldorf, February 18, 2014

On behalf of the Supervisory Board

Simone Bagel-Trah

Dr. Simone Bagel-Trah
(Chairwoman)

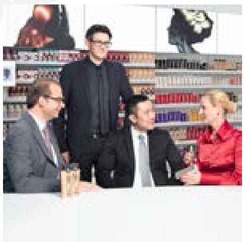
Delivering on our strategy

In 2013, we focused on the consistent global execution of our strategy in all our businesses. Thanks to the strong commitment and determination of all Henkel employees, we laid the foundation for meeting our ambitious targets for 2016.

Outperform

page 14

Leverage top brands



Outperform

page 14

Powerful innovations

Düsseldorf
Germany

Simplify

page 18

Best-in-class processes

Munich
Germany

Globalize

page 16

Leverage strengths in mature markets

Charlotte
USA

Outperform

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Focus on customers

Toluca
Mexico

Simplify

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Cost efficiency

Inspire

page 20

Diverse teams

Bogotá
Colombia

Inspire

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Strong leadership

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Expand footprint in emerging markets

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Shanghai
China

Inspire

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Talent and performance focus

Dubai
United Arab Emirates

Globalize

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Expand footprint in emerging markets

Jakarta
Indonesia

Simplify

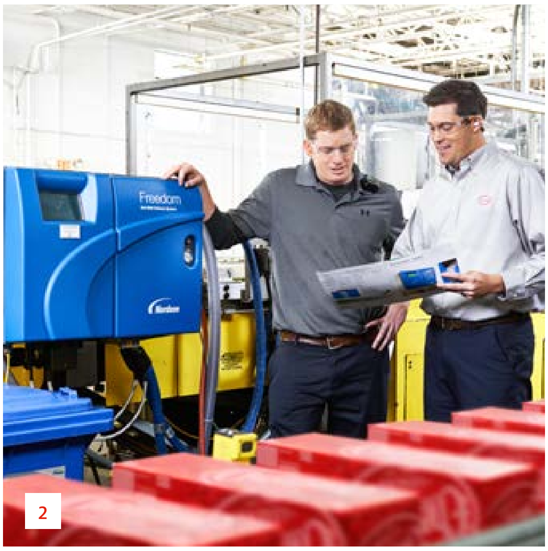
page 18
Strong IT focus

Find out more about our strategic priorities in the online Annual Report 2013:

www.henkel.com/annualreport

Outperform

We will leverage our full potential in our product categories in order to gain market shares, and outperform our competition by actively managing our portfolio, strengthening our top brands, launching powerful innovations, and focusing on customers and consumers.



Focus on customers

Powerful innovations

Leverage top brands

1 Extending innovation leadership

Powerful innovations drive outperformance in competitive markets. The innovative Somat Gel Tabs for automatic dishwashing machines ensure perfect cleaning results and a unique shine.
Photo: Dr. Volker Blank (left), and Dr. Noëlle Wrubbel, Global R&D, check the brilliant shine of glasses at the dishwashing test laboratory of our international product development unit in Düsseldorf.

2 Adhesive solutions provider

In collaboration with partners such as Nordson Corporation, we have developed a new generation of hotmelt processes which will be applied in a broad range of industries.
Photo: Kevin Heffernan (right), Sales Manager at Henkel, explains the advantages of hotmelts applied by a Nordson dispenser to his customer Bret Frazier, Operations Manager, at a can line of a packaging plant in Charlotte, North Carolina, USA.

3 Schwarzkopf brand reaches 2 billion euros

With breakthrough concepts and superior innovations, the international Beauty Care team drives the success of its top brand Schwarzkopf.
Photo: Team meeting in the Beauty Care customer experience center “Lighthouse” in Düsseldorf. From left: Steffen Rübke, General Manager Retail Germany, and his colleagues Matthieu Chauvet, International Marketing Director Professional, Mark Chan, Regional Marketing Director Asia-Pacific, and Catharina Christe, International Marketing Manager.

In 2013, we made significant progress in advancing our leadership position in our relevant markets and categories by further strengthening our top brands. At the same time, we continued to invest in developing and launching innovations, intensified cooperation with business partners, and focused on our customers and consumers.

Strengthening our top brands

To capture the full potential for accelerated growth and increased profitability in our categories, we continued to focus on our top brands, such as Persil, Schwarzkopf or Loctite. At the end of 2013, our top 10 brands generated 57 percent of total sales compared to 44 percent in 2012. We aim to increase this share to around 60 percent by 2016.

In 2013, sales of Henkel Beauty Care's biggest brand Schwarzkopf reached 2 billion euros for the first time. With a portfolio of superior product brands such as Schauma, Drei Wetter Taft and Brillance, Schwarzkopf stands for quality, expertise and innovation. It is now present in over 50 countries worldwide. Our Schwarzkopf Academies and Studios are recognized centers of excellence, inspiring and educating professional hairdressers around the world.

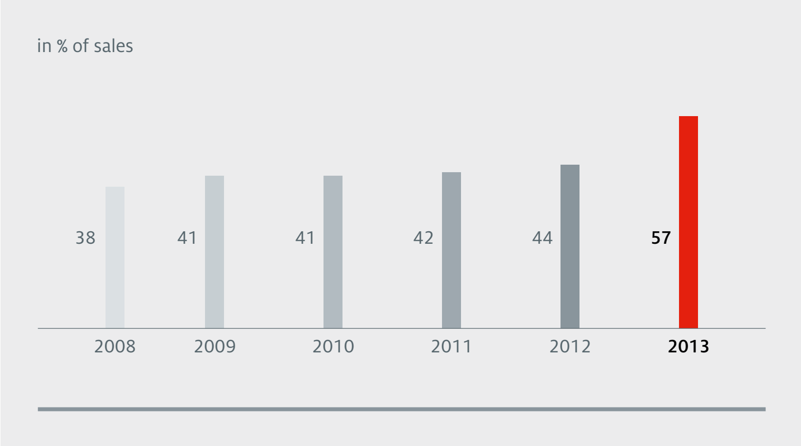
Powerful innovations

Our success in highly competitive markets is based on strong innovations that meet the needs of our customers and consumers around the world.

Somat/Pril Gel Caps were one of the most powerful innovations in our Laundry & Home Care business in 2013. They offer convenient handling, exceptional cleaning results and a unique shine – even in short and in low-temperature "energy-saving" dishwashing cycles. The capsules were successfully launched in Italy in July 2013 under the Pril brand and will be introduced under the Somat brand in all relevant markets in Western and Eastern Europe within the first quarter of 2014.

In order to capture the full innovation potential in emerging markets, Henkel opened four R&D centers in emerging markets in 2013: in Dubai (United Arab Emirates), Johannesburg (South Africa), Pune (India) and Seoul (South Korea). We also significantly expanded our R&D center in Moscow, Russia. By 2016, we aim to open or expand seven R&D centers in emerging markets.

Increasing share of top 10 brands



Focus on customers

Fully understanding our customers' needs and cooperating with partners along the value chain are key competitive advantages for Henkel. The cooperation between our Adhesive Technologies business and Nordson Corporation combines Nordson's expertise in equipment engineering and dispensing technology with our leading adhesives formulating ability and application competence. This will generate innovative solutions, provide significant benefits and deliver greater value to customers in different industry segments using Nordson equipment and Henkel adhesives in combination.

We are leveraging consumer insights with the "shopper studies" conducted by our Laundry & Home Care and Beauty Care businesses. These insights benefit our strong relationships with our customers, major retail companies, as they learn more about their customers' individual shopping behavior.

Globalize

We will further globalize our company and capture growth opportunities in both emerging and mature markets by implementing differentiated regional strategies: expanding our footprint in emerging markets while leveraging our strong positions in mature markets.

2

Expand footprint in emerging markets

1

Expand footprint in emerging markets

3

Leverage strengths in mature markets

1 Meeting customers' needs

Customer proximity and a deep understanding of specific regional consumer needs are key success factors for expanding our footprint in emerging markets.
From left: Mohamed Abdel Ghany and Shaimaa Alwakel, Regional R&D, explain typical types of stains in the Africa/Middle East region to Sana Choyakh, Marketing Manager for laundry detergents, in the Innovation Center in Dubai, United Arab Emirates.

2 Accelerated expansion

China is one of the top five global markets for our Beauty Care business. We focus on targeted marketing activities in "modern trade stores," which represent 70 percent of today's total hair business in China.
From left: Marketing Director Anita Ching and James Wang, General Manager Retail, discuss the shelf presence of Beauty Care products with Chun Yao, salesperson at A.S. Watson, in Chengdu, China.

3 Leveraging our expertise

Employees at the Henkel engineering center near Munich, Germany, test the application of adhesives for customers from around the world. The center is a model for further expansion of our network of testing and development centers that enables us to develop and test individual solutions by working closely with customers.
Photo: Engineering Scientist Renate Kreuzer analyzes the shape and dimensions of a car roof segment made of carbon fiber-reinforced Henkel resin using an optical 3D measurement device.

In 2013, we successfully expanded our footprint in emerging markets where we see significant growth potential for the future: The share of sales generated in emerging markets climbed to 44 percent, driven by all three business units. In mature markets, we maintained sales at around the prior-year level despite continued challenging market conditions with negative or low growth and intense competition.

Expand footprint in emerging markets

In the course of 2013, we significantly grew our Laundry & Home Care business in the Africa/Middle East region, despite ongoing unrest in a number of countries. Reporting a double-digit increase in sales, this region has become the biggest growth driver for Laundry & Home Care in the past five years. In November 2013, we opened a regional innovation center in Dubai. It will focus on the development of laundry and home care products designed to meet consumer needs in the region.

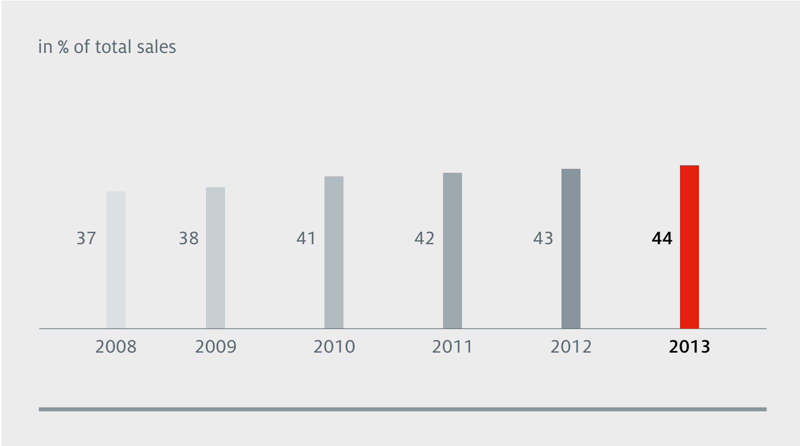
The successful development of our Beauty Care business in China is an impressive example of leveraging an existing presence in one of the fastest-growing emerging markets. With an ambitious go-to-market strategy and a disciplined distribution offensive, China has now become the fifth largest market globally for our Beauty Care business, while still offering significant potential for further growth.

We utilize our global setup of research and development centers as well as our production and manufacturing footprint to serve customers in many different industries around the world. In September 2013, we opened the world's largest adhesives factory in Shanghai, China, with a total production capacity of up to 430,000 metric tons. The plant also sets new standards in efficiency, safety and sustainability thanks to water recovery systems, recycling procedures and energy-saving technologies.

Leverage strengths in mature markets

Mature markets will continue to play an important role for Henkel. Here, we will leverage our strengths and aim to generate profitable growth with strong brand investments and by maintaining our cost focus.

Increasing share of sales generated in emerging markets



In 2013, we faced a challenging business environment in several mature markets, particularly in Southern Europe. However, we were able to capitalize on our leading positions in many mature markets – thanks to our strong brands and technologies, and close cooperation with our customers.

In our Adhesive Technologies engineering center near Munich, Germany, we develop individual solutions for customers in the automotive industry as well as a broad range of other industries. Our technical experts develop tailor-made adhesives solutions for our customers which are then applied in their global manufacturing processes.

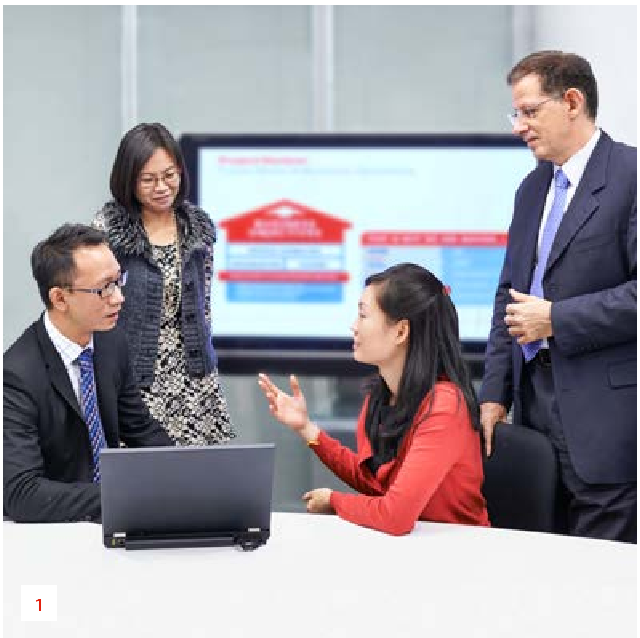
To support our customers beyond the development process, we also train their employees to ensure the safe and efficient use of our adhesives in their specific production setting. For example, training programs near Munich are held almost every week throughout the year, with around 800 engineers of customers participating annually.

Simplify

We will drive our operational excellence and continuously improve our competitiveness by standardizing, digitizing and accelerating our processes, focusing on end-to-end optimization and increased cost efficiency.

2

Cost efficiency



1

Strong IT focus

3

Best-in-class processes

1 Successful roll-out of a global SAP platform

In 2013, our new SAP platform “Horizon” was successfully implemented throughout most of Asia-Pacific. Now it will be rolled out to other regions. Through increased standardization, we aim to reduce the number of processes globally – from around 2,000 in 2013 to around 800 by 2016.
From left: Alvin Xie, Jancy Jin, Michelle Ng and Marcus Dellith, “Horizon” project team in Asia-Pacific, in Jakarta, Indonesia.

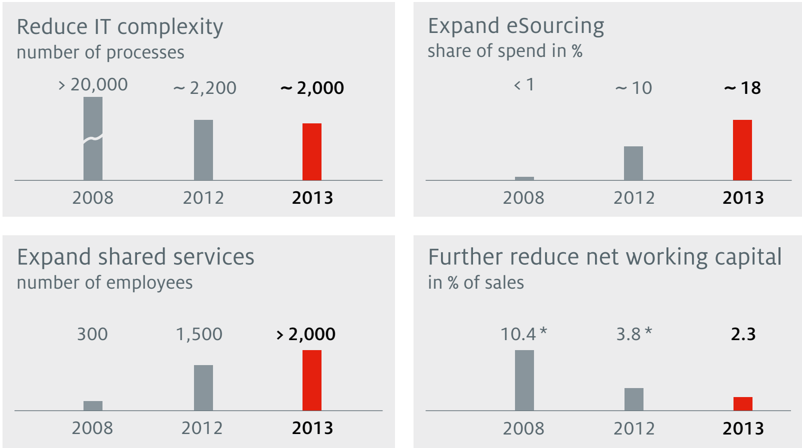
2 Strong partnerships with suppliers

By closely collaborating with our suppliers, our Global Purchasing ensures high quality and cost efficiency leading to best-in-class products for our customers.
From left: Jamie Flores Alvarez, Purchaser, confers with David Azcona Letechipia from Papeles Corrugados S.A. de C.V., a Henkel supplier, on packaging material requirements in Toluca, Mexico.

3 Optimized processes and solutions

In our newly established Integrated Business Solutions (IBS) organization, Henkel has combined its global shared services and IT function. This will create a scalable global business platform to support our future growth.
From left: In Düsseldorf IBS managers Reinhard Maier-Peveling, Denise Saadeh and Christiane Schmidt discuss the optimization of end-to-end processes.

Driving transformation through standardization and digitization



* After adapted definition in 2013.

In 2013, we laid the foundation for improving our competitiveness through a broad range of initiatives. These included the integration of our information technology (IT) landscape, standardization of processes, establishing the Integrated Business Solutions (IBS) organization and the implementation of digital and global sourcing programs.

Strong IT focus

We are convinced that digitization offers substantial potential to improve our competitiveness: Standardized IT platforms that provide real-time data will increase speed, flexibility, and efficiency across all our businesses and functions.

We aim to reduce complexity by standardizing processes and consolidating various IT systems within our scalable global SAP platform, "Horizon." In 2013, we made significant progress: In the Asia-Pacific region, we successfully converted more than 20 different systems to our new SAP platform. This was another important step toward our goal to reduce the overall number of processes to around 800 by 2016. Leveraging this integrated platform on a global scale over the coming years will drive operational excellence.

In addition, we made preparations to implement a state-of-the-art digital workplace for all Henkel employees worldwide in 2014. By transitioning to this new platform, we aim to improve digital collaboration and dialog, and to expand knowledge sharing across our global organization in order to increase productivity and competitiveness.

Best-in-class processes

Over the past years, we have set up global shared services with more than 2,000 employees in four different centers around the globe. By the end of 2016, the number of employees in shared services will grow to more than 3,000. In 2013, we integrated our shared services with our IT into one newly established Integrated Business Solutions (IBS) organization. We expect IBS to become an important factor in delivering on our 2016 financial targets. IBS will help to establish end-to-end processes across all business units and functions and provide higher transparency based on real-time information. This will improve the quality and speed of decision-making in a highly volatile business environment.

Cost efficiency

In 2013, we began to implement our "Sourcing@Best" initiative – aimed at improving our cost efficiency and increasing the flexibility of our global sourcing processes. We will consolidate our sourcing operations into eight global sourcing hubs.

As digitization offers substantial potential to optimize cost efficiency and increase transparency in sourcing processes, we have established an integrated eSourcing platform across all regions. This platform captures in real time all data relevant to purchasing spend, supplier portfolio and supplier performance. The share of eSourcing has increased substantially over recent years: In 2013, it rose to around 18 percent of total spend compared to around 10 percent at the end of 2012.

Inspire

We are focusing on three areas in order to make our global team even stronger: strengthening our leadership team, rewarding talent and performance, and increasing the diversity of our workforce.

2

Diverse teams

1

Talent and performance focus

3

Strong leadership

1 **Accelerated talent development**

In order to attract and retain the best talents for Henkel, particularly in emerging markets, we introduced a specific training program across all business units and functions.
From left: Training participants Coco Wu, Ted Hong, Xiaowei Chang and Fang Chin Tan in between two sessions in Shanghai, China.

2 **Experiencing diversity at all Henkel sites**

Over three weeks in spring 2013, Henkel employees worldwide participated in more than 100 local, regional, global and virtual events on "Experiencing Diversity."

From left: During a diversity training event in Bogotá, Colombia, Alfredo Morales, Regional Head of Beauty Care Retail Latin America, talks with production colleagues Janeth Puerto, Leonilde Caballero, John Herrera and other employees about local diversity topics.

3 **Leadership Principles workshops**

6,800 people managers worldwide discussed the company's Leadership Principles in around 350 workshops. They exchanged experiences and ideas about leadership at Henkel across all businesses and functions.
Photo: Radka Javureková (right) and Róbert Piaček with other team leaders during their workshop in Bratislava, Slovakia.

In 2013, we focused on implementing programs and refining processes in order to strengthen our leadership team, attract and develop talents, foster a strong performance culture and promote diversity across the entire organization.

Strong leadership

Strong leaders make the difference in successfully steering a business in a volatile environment, creating new growth opportunities, driving change and establishing a strong performance culture. As Henkel becomes a more global and diverse company, it is crucial that each manager has a clear understanding of what defines strong leadership and what is expected from successful leaders at Henkel.

To provide clear guidance, Henkel developed five Leadership Principles which were introduced in 2012 in combination with our strategy. They are an integral part of the evaluation and development of our leaders. To ensure all people managers at Henkel fully understand and commit themselves to these principles, a global workshop program was rolled out in 2013.

In the course of the year, we progressed our Leadership Development series. This mandatory training program for all people managers supports them from their first operational leadership tasks through to advanced responsibilities. In addition, we decided to set up a Leadership Forum, specifically targeted at the development of top-level leaders and based on the concept of "leaders teaching leaders."

Talent and performance focus

While emerging markets represent significant growth potential, they offer a relatively small pool of talents with the breadth of skills and depth of experience needed to fully capture the opportunities in these markets. To address this challenge, we are taking various steps to accelerate the development of internal talents in emerging markets. Our Human Resources team in Asia developed a specific talent acceleration program which has been refined over the past three years. Based on the positive experiences and outcomes of this program, it will be extended to other emerging markets, starting with Africa/Middle East in 2014.

Our five Leadership Principles

In 2013, we completed our fifth annual Development Round Table (DRT) for around 10,000 management employees worldwide. The DRT is a globally standardized process to evaluate the performance and development potential of managers at Henkel. The promotion of more than 1,000 internal candidates to higher management levels or new positions is testament to the strength of our internal talent pool and our focus on its development.

Diverse teams

We are convinced that a diverse workforce and an inclusive company culture are key success factors in a globalized world. In promoting diversity at Henkel, we focus on actively managing the dimensions of gender, the multiple cultural backgrounds of our employees, and different generations working together.

Based on our Diversity & Inclusion strategy, we have developed a wide range of programs to promote diversity and an inclusive working environment around the world. We support our managers in effectively leading international teams, leveraging the experience of all colleagues. By systematically supporting female career development, we were able to increase the share of women in management to around 32 percent.

In 2013, all Henkel employees worldwide participated in the global Diversity Weeks themed "Experiencing Diversity."

Driving excellence in execution

In 2013, the Henkel Management Board and top management gathered for their annual strategy session at Harvard Business School in Boston, Massachusetts, USA. They discussed with Harvard professors major business trends and strategic initiatives ranging from digitization to winning in emerging markets. As a result, clear roadmaps for execution of these initiatives have been developed – all aligned toward one goal: achieving our ambitious targets by 2016.

Kasper Rorsted
Chairman of the Management Board

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

Kathrin Menges
Executive Vice President Human Resources / Infrastructure Services

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

Carsten Knobel
Executive Vice President Finance (CFO) / Purchasing / Integrated Business Solutions

Born in Marburg / Lahn, Germany on January 11, 1969; with Henkel since 1995.

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
Beauty Care

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

Jan-Dirk Auris
Executive Vice President
Adhesive Technologies

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

Group management report

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. With this in mind, 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

Corporate governance / corporate management report

The German Corporate Governance Code (DCGK) was introduced in order to promote confidence in the management and oversight of listed German corporations. It sets out the nationally and internationally recognized regulations and standards of responsible corporate management applicable in Germany. The DCGK is aligned to the statutory provisions applicable to a German joint stock corporation ("Aktiengesellschaft" [AG]). It is applied analogously by Henkel AG & Co. KGaA. For a better understanding of Henkel's legal structure, this report describes the principles underlying the management and control structure of the corporation. It also outlines the special features distinguishing us from an AG which derive from our specific legal form and our Articles of Association. The primary rights of shareholders of Henkel AG & Co. KGaA are likewise explained. The report takes into account the recommendations of the DCGK and contains all 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 legal entity in which at least one partner assumes unlimited liability in respect of the company's creditors (i.e. personally liable partner). The other partners' liability is limited to their shares in the capital stock and 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 a focus in stock corporation law. The difference with respect to an AG is primarily 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. Specifically, the supervisory board is not authorized to appoint personally liable partners, preside over the partners' contractual arrangements, impose procedural rules on the management board, or 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. Additionally, it votes on the adoption of the annual financial statements of the corporation and 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 partners 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).

According to the 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 (Article 27 of the Articles of Association). The Shareholders' Committee is required in particular to perform the following functions (Section 278 (2) AktG in conjunction with Sections 114 and 161 HGB and Articles 8, 9 and 26 of the Articles of Association):

- It acts in place of the Annual General Meeting 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 Annual General Meeting of Henkel Management AG, thereby choosing its three-member Supervisory Board which, in turn, appoints and dismisses the members of the Management Board.
- It issues rules of procedure incumbent upon Henkel Management AG.

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 in. Multiple share certificates for shares may be issued. In accordance with Art. 6 (4) of the Articles of Association, there is no right to individual share certificates.

Each ordinary share grants to its holder one vote. (Art. 21 (1) of the Articles of Association). The preferred shares grant to their holders all shareholder rights apart from the right to vote (Section 140 (1) AktG). The preferred shares carry the following preferential right in the distribution of unappropriated profit (Section 139 (1) AktG in combination with Art. 35 (2) of the Articles of Association) unless otherwise resolved by the Annual General Meeting:

- The holders of preferred shares receive a preferred dividend in the amount of 0.04 euros per preferred share. If the profit to be distributed in a fiscal year is insufficient for payment of a preferred dividend of 0.04 euros per preferred share, the arrears are paid without interest from the profit of the following years, with older arrears to be paid in full before more recent arrears and the preferred dividend from the profit of a particular fiscal year paid only after the clearance of all arrears. The holders of ordinary shares then receive a preliminary dividend from the remaining unappropriated profit 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.
- 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 carrying multiple voting rights, preference voting rights, maximum voting rights or special controlling rights.

The shareholders exercise their rights in the Annual 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 (Section 134 (3) and (4) AktG in conjunction with Art. 21 (2 and 3) of the Articles of Association) – and are also entitled to speak on agenda items and raise pertinent questions and motions (Section 131 AktG in conjunction with Art. 23 (2) of the Articles of Association).

Unless otherwise mandated by statute or the Articles of Association, the resolutions of the Annual General Meeting are adopted by simple majority of the votes cast. If a majority of capital is required by statute, resolutions are adopted by simple majority of the voting capital 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 corporation require a three-quarters' majority (Section 179 (2) AktG). The Supervisory Board and Shareholders' Committee have the authority to resolve purely formal modifications of and amendments to the Articles of Association (Art. 34 of the Articles of Association).

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/bond-holders 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 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 the need for further resolution by the Annual General Meeting.

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.

Restrictions with respect to voting rights or the transfer of shares
A share-pooling agreement has been concluded between members of the families of the descendents of company founder Fritz Henkel which contains restrictions with respect to transfers of the ordinary shares covered (Art. 7 of the Articles of Association).

Henkel preferred shares acquired by employees through the Employee Share Program, including bonus shares acquired without additional payment, are subject under civil law to a company-imposed lock-up period of three years. The lock-up period begins on the first day of the respective participation period. Essentially, the shares should not be sold before the end of this period. If employee shares are sold during the lock-up period, the bonus shares are forfeited.

Contractual agreements also exist with members of the Management Board governing lock-up periods for Henkel preferred shares which they are required to purchase as part of their variable annual remuneration. (For additional information, please see the remuneration report on pages 33 to 41.)

Major shareholders
According to notifications received by the corporation on December 14, 2013, a total of 58.68 percent of the voting rights are held by members of the Henkel share-pooling agreement.

58.68 %
of voting rights held by members of the Henkel share-pooling agreement.

No other direct or indirect investment in capital stock exceeding 10 percent of the voting rights has been reported to us or is known to us.

Management Board
The Supervisory Board of Henkel Management AG is responsible for the appointment and dismissal of members of the Management Board of Henkel Management AG (Management Board). The appointments are for a maximum term of five years. A reappointment or extension of the term is permitted for a maximum period of five years in each case (Section 84 AktG).

The Management Board is composed of at least two members in accordance with Art. 7 (1) of the Articles of Association of Henkel Management AG. The Supervisory Board is also responsible for determining the number of members on the Management Board. The Supervisory Board can appoint a member of the Management Board as Chairperson.

As the executive body of the Group, the Management Board is bound to uphold the interests of the business and is responsible for ensuring a sustainable increase in shareholder value. The members of the Management Board are responsible for managing Henkel's business operations in their entirety. 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 within the Management Board are regulated by the 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.

It is the duty of the Management Board to prepare the annual financial statements of Henkel AG & Co. KGaA and the consolidated financial statements for each quarter, half year and year. It is responsible for management of the overall business including planning, coordination, allocation of resources, financial control, and risk management. It must also ensure compliance with legal provisions, regulatory requirements and internal company guidelines, and take steps to ensure that Group companies observe them.

Further information on corporate management can be found in the section "Principles of corporate management/Compliance" on page 31. For information on remuneration of Management Board members and the contractual provisions entered into with them, including any severance payments, please refer to the remuneration report on pages 33 to 41. The composition of the Management Board is shown on page 173.

Interaction between Management Board, Supervisory Board, Shareholders' Committee and other committees
The Management Board, Supervisory Board and Shareholder's Committee work in close cooperation for the benefit of the corporation.

The Management Board agrees on the strategic direction of the company with the Shareholders' Committee and discusses with it the status of strategy implementation at regular intervals.

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 relevant issues concerning business policy, corporate planning, profitability, the business development of the corporation and its major affiliated 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 company. The Management Board complies with these rights of consent of the Shareholders' Committee and also duly submits to the decision authority of the corporation's Annual General Meeting.

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

As a general 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 member is elected by the Supervisory Board based on nominations of their fellow shareholder or fellow employee representatives on the Supervisory Board. The Chairperson of the Audit Committee is elected based on a proposal of 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 or auditing. The Chairperson of the Audit Committee in 2013, Prof. Dr. Theo Siegert, who is not the Chairperson of the Supervisory Board nor a present or 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 as well as deciding on the fee for the audit 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. Furthermore, 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. It is likewise involved in compliance issues. It 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 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).

The Shareholders' Committee generally meets six times per year and holds a joint conference with the Management Board lasting several days. The Shareholders' Committee reaches its decisions by a simple majority of the votes cast. It has established Finance and Human Resources Subcommittees that likewise meet six times per year, as a rule. Each subcommittee comprises five of its members.

The Finance Subcommittee deals primarily with financial matters, questions of financial strategy, financial position and structure, taxation and accounting policy, as well as risk management within the corporation. It also performs the necessary preparatory work for decisions to be made by the Shareholders' Committee in situations where decision authority has not been delegated to it.

The Human Resources Subcommittee deals primarily with personnel matters relating to members of the Management Board, issues pertaining to human resources strategy, and with remuneration. It performs the necessary preparatory work for decisions to be made by the Shareholders' Committee in situations where decision authority has not been delegated to it. The subcommittee also addresses issues concerned with succession planning and management potential within the individual business units, taking into account relevant diversity aspects.

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.

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. If and when 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. In our view, such transactions do not affect the impartiality of the members in question.

For more details on the composition of the Supervisory Board and the Shareholders' Committee or the (sub)committees established by the Supervisory Board and Shareholders' Committee, please refer to pages 170 to 172. Details of compensation can be found in the remuneration report on pages 33 to 41.

Objectives regarding Supervisory Board composition

In consideration of the specific situation of the corporation, the Supervisory Board has established the objectives described below with respect to its composition. These objectives 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:

Around **44** %
Supervisory Board membership female.

- The members of the Supervisory Board should, generally speaking, offer the knowledge, skills and relevant experience necessary in order to properly perform their duties. In particular, experience and expertise are required in one or several of the fields of corporate management, accounting, financial control/risk management, corporate governance/compliance, research and development, production/engineering, and marketing/sales/distribution, as is knowledge of the industrial or consumer businesses and of 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. Thus, it aims to include several members with an international background. The mix of candidates proposed for election should also contain an appropriate number of women. Here, a proportion of 30 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 an appropriate number of independent members. Specifically, the Supervisory Board should contain no 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 material conflicts of interest which are not of a temporary nature. Assuming that the pure exercise of their Supervisory Board mandate by the employee representatives does not give rise to doubts as to whether the independence criteria as defined by item 5.4.2 of the DCGK are fulfilled, the Supervisory Board should include at least 13 members who are independent as defined by the DCGK. Consistent with the corporation's tradition as an open family business, possession of a controlling interest or attribution of a controlling interest due to membership in the Henkel share-pooling agreement is not viewed as a circumstance that creates a conflict of interest in the meaning above. However, irrespective of this, at least three of the shareholder representatives on the Supervisory Board should, as a rule, be neither members of the Henkel share-pooling agreement nor members of the Shareholders' Committee nor members of the Supervisory Board of Henkel Management AG. Further, no persons shall be proposed for election at the Annual General Meeting who, at the time of the election, have already reached their 70th birthday.

Objectives attainment status

Overall, the Supervisory Board has at its disposal the knowledge, skills and technical abilities needed to properly and effectively perform its duties. In particular, there are several members within the Supervisory Board offering international business experience or other international expertise. No individual on the Supervisory Board exceeds the specified maximum age.

Currently, seven of the 16 Supervisory Board members are women, a ratio of around 44 percent.

None of the Supervisory Board members elected by the Annual General Meeting is a former Management Board member, or performs board or committee functions or acts as a consultant for major competitors, and none are persons whose relationship with the corporation or members of the Management Board could give rise to material conflicts of interest which are not of a temporary nature. Four of the eight shareholder representatives are not members of the Henkel family share-pooling agreement, and seven of the eight shareholder representatives are neither members of the Shareholders' Committee nor members of the Supervisory Board of Henkel Management AG.

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 likewise incorporated in the regular financial reporting undertaken by the corporation. The dates of the major recurring publications, and also 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 company'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.

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 activities 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 registration, evaluation, 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 in manufacturing, the handling of products and their contents, 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 throughout, 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 in a timely fashion.

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 legal requirements, 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 ethical 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.

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.

These values guide our employees in all the day-to-day decisions they make, providing a compass for their conduct and actions.

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 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 and standards with precepts that are binding worldwide. These regulatory instruments are periodically reviewed and amended as appropriate, evolving in step with the changing legal and commercial conditions that affect Henkel as a globally active corporation. The Code of Conduct supports our employees in ethical and legal issues. The Leadership Principles define the scope of responsibilities for managers. The Code of Corporate Sustainability describes the principles that drive our sustainable, socially responsible approach to business. These codes also enable Henkel to meet the commitments derived from the United Nations Global Compact.

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 General Counsel & Chief Compliance Officer (CCO). The General Counsel & CCO, supported by the Corporate Compliance Office and the interdisciplinary Compliance & Risk Committee, 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.

The local and regional compliance officers are responsible for organizing and overseeing the training activities and implementation measures tailored to the specific requirements of their locations. They report to the Corporate Compliance Office. The General Counsel & CCO reports regularly to the Management Board and to 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 of Henkel. Due to their position, 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 policy.

In addition to our internal reporting system and complaint registration channels, employees may also, for the purpose of reporting serious violations to the Corporate Compliance Office, anonymously use a compliance hotline operated by an external service provider. The Head of the Corporate Compliance Office is mandated to initiate the necessary follow-up procedures.

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

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 comprised of representatives from various departments. In order to ensure that all insider information is handled as required by law, this committee 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 Management Board, 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.

Further information on corporate governance and the principles guiding our corporate stewardship can be found on our website at www.henkel.com/ir or in our Sustainability Report.

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 (DCGK), as amended, with one exception: In order to protect the legitimate interests and privacy of the members of the corporate management bodies who are also members of the Henkel family, their shareholdings are not disclosed unless required by law. The DCGK requires disclosure of shareholdings upward of one percent. In accordance with the Declaration of Compliance, the following information is reported concerning the aggregate shareholdings of all members of a corporate body: The aggregate holdings of the members of the Supervisory Board and of the members of the Shareholders' Committee exceed in each case one percent of the shares issued by the company. The members of the Management Board together hold less than one percent of the shares issued by the company.

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

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

Directors' dealings

In accordance with Section 15a of the German 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 by the member, and parties related to the member, attains or exceeds 5,000 euros in a calendar year. The transactions reported to the corporation in the past fiscal year were properly disclosed and can be seen on the website www.henkel.com/ir

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.

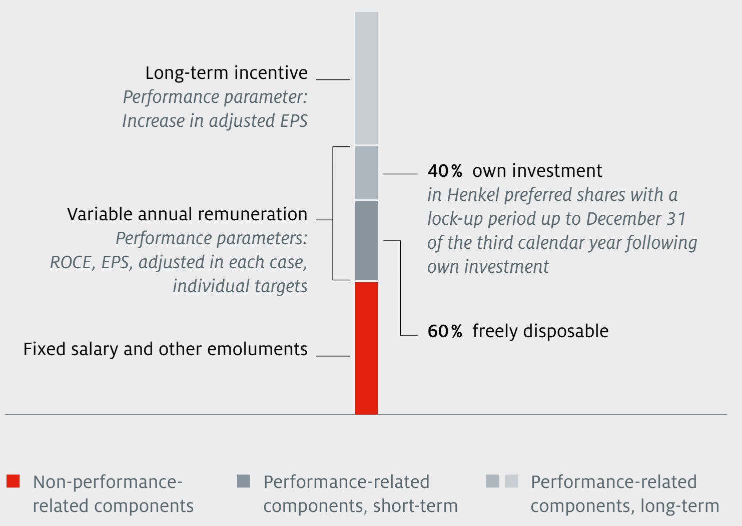
The report takes into account the recommendations of the German Corporate Governance Code (DCGK) and contains all the disclosures and explanations required pursuant to Section 285 sentence 1 no. 9, Section 289 (2) no. 5, Section 314 (1) no. 6 and Section 315 (2) no. 4 of the German Commercial Code [HGB].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

1. Management Board remuneration

Regulation, structure and amounts

The compensation for members of the Management Board of Henkel Management AG is set 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.

Remuneration structure



The structure and amounts of Management Board remuneration 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 corporation. The compensation package is further determined on the basis of the functions, responsibilities and personal 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 sustainable business development and a sustainable increase in shareholder value in a dynamic environment.

Members of the Management Board receive remuneration consisting of performance-related and non-performance-related components. The non-performance-related component is made up of fixed remuneration as well as in-kind benefits and other benefits. The performance-related component is made up of variable annual remuneration, from which the recipient must finance an investment (own investment) in Henkel preferred shares corresponding to around 40 percent of the variable annual remuneration, as well as variable cash remuneration based on the long-term performance of the business (long-term incentive). Thus remuneration based on long-term performance is comprised of the own investment that is payable from the variable annual compensation, and the long-term incentive. In addition, the Supervisory Board of Henkel Management AG may, at its discretion and after due consideration, grant a special payment in recognition of exceptional achievements. Pension benefits also form part of the remuneration package. The Supervisory Board of Henkel Management AG regularly reviews the compensation system as well as the appropriateness of the compensation.

The components in detail:

Non-performance-related components

Fixed salary

The fixed remuneration is paid out monthly as salary. It amounts to 1,050,000 euros per year for the Chairman of the Management Board and 700,000 euros per year for the other Management Board members.

Other emoluments

The members of the Management Board also receive other emoluments, primarily in the form of costs associated with, or the cash value of, in-kind benefits and other fringe benefits such as standard commercial insurance policies, reimbursement of accommodation/moving costs, costs associated with preventive medical examinations, and provision of a company car, including any taxes on same. All members of the Management Board are entitled, in principle, to the same emoluments, whereby the amounts vary depending on personal situation.

Performance-related components

Variable annual remuneration

The variable annual remuneration is made up of annual performance-related components which account for around 60 percent of the target compensation amount, and a long-term variable incentive which accounts for around 40 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 lock-up 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. 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 unit, the quality of management demonstrated in those business units, and the individual contribution made by the Management Board member concerned.

In determining the variable annual remuneration, the Supervisory Board of Henkel Management AG also takes into due account the apparent sustainability of the economic performance, and the performance levels of the Management Board members.

The total amount of variable annual remuneration is subject to a cap.

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. The full amount of variable annual remuneration is paid in cash, of which the recipients can dispose of about 60 percent as they wish. The members of the Management Board invest the remaining amount corresponding to about 40 percent in Henkel preferred shares (own investment), which they purchase on the stock exchange at the price prevailing at the time of acquisition. These shares are placed in a blocked custody account with a drawing restriction. The lock-up period in each case expires on December 31 of the third year following the own investment. 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.

Long-term incentive (LTI)

The long-term incentive 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 EPS over three consecutive years (the performance period).

On completion of the performance period, target achievement is ascertained by the Supervisory Board of Henkel Management AG on the basis of the increase in EPS achieved. The EPS of the fiscal year preceding the year of payment is compared to the EPS of the second fiscal year following the year of payment. 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 fiscal years.

The total amount of the long-term incentive is subject to a cap.

Caps on remuneration

Taking into account the above-mentioned caps for the performance-related components of remuneration, the table below shows the minimum and maximum remuneration amounts that result for a fiscal year (excluding other emoluments and pension expenses):

Pension benefits

Current members of the Management Board have a defined contribution pension plan. 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 cash compensation paid in the fiscal year in question (fixed plus variable annual compensation). The percentage is the same for all members of the Management Board. The annual contributions depend to a certain degree on changes in the cash compensation, with minimum and maximum limits (caps) for the allocation. The annual pension component is arrived at by multiplying the amount of 3 percent of the current pension threshold by the age-based pension factor. 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 an appropriate, performance-based retirement pension.

An entitlement to pension benefits arises on retirement, on termination of the employment relationship on or after attainment of the statutory retirement age, in the event of death, or in the event of permanent incapacity for work. If a member of the Management Board has received no pension benefits prior to their death, the superannuation lump sum accumulated up to time of death is

Caps on remuneration

in euros	Fixed salary	Variable annual remuneration	Variable long-term incentive	Total compensation minimum	Total compensation maximum
Chairman of the Management Board	1,050,000	0 to 5,491,000	0 to 918,000	1,050,000	7,459,000
Ordinary member of the Management Board	700,000	0 to 3,230,000	0 to 540,000	700,000	4,470,000

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 dependent child receives benefit payments amounting to 15 percent of the executive's pension entitlement – up to a maximum of 100 percent for all beneficiaries. The surviving child's benefit is generally paid until the child's 18th birthday or until completion of their professional training, but only up to their 27th birthday.

Provisions governing termination of position on the Management Board

In the event of retirement, members of the Management Board who were first appointed prior to 2009 are entitled to continued payment of compensation for a further six months, but not beyond their 65th birthday. In the event of death, the payments are made to the surviving spouse or entitled dependent children.

In the event that a member's position on the Management Board is terminated without good cause or reason, the executive contract provides for a severance settlement amounting to the remuneration for the remaining contractual term (fixed remuneration plus variable annual remuneration for single or multiple years) in the form of a discounted lump-sum payment. These severance payments are limited to two years' compensation (severance payment cap) and may not extend over a period that exceeds the residual term of the executive contract. In the event that the sphere of responsibility/executive function is altered or restricted to such an extent that it is no longer comparable to the position prior to the change or restriction, the affected members of the Management Board are entitled to resign from office and request premature termination of their contract. In such case, members are entitled to severance payments amounting to not more than two years' compensation.

Upon departure from the Management Board, the variable annual remuneration is paid on a time-proportion basis on the ordinary payment date after the end of the fiscal year in which the appointment ends. This applies accordingly to entitlements arising from the LTI. However, entitlements from any tranche whose performance period has not yet ended as of the date of departure are forfeited without replacement if the departure is based on good cause or reason that would have justified the revocation of the appointment or termination of the employment 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. Equally, any earnings from new extra-contractual activities during the non-competition period shall be offset against this discretionary payment to the extent that such earnings and discretionary payment together exceed the actual compensation paid in the last fully ended fiscal year by ten percent or more. No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

Other provisions

The corporation maintains directors and officers insurance (D&O insurance) for directors and officers of the Henkel Group. For members of the Management Board there is a deductible amounting to 10 percent per loss event, subject to a maximum for the fiscal year of one and a half times their annual fixed remuneration.

Remuneration for 2013

Excluding pension entitlements, 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, amounted to 26,944,135 euros (previous year: 25,309,802 euros – including the cumulative savings reserve for the Special Incentive 2012 and the compensation attributable to Dr. Lothar Steinebach through June 30, 2012). Of the total cash compensation paid or payable with respect to 2013 in the amount of 25,369,635 euros (previous year: 22,484,676 euros), fixed salaries accounted for 4,550,000 euros (previous year: 4,445,000 euros), annual variable remuneration 20,652,475 euros (previous year: 17,845,060 euros), and other emoluments 167,160 euros (previous year: 194,616 euros). In addition, the total compensation includes the long-term incentive granted with respect to 2013 which – depending on the achievement of the performance targets – becomes payable only in 2016. In accordance with legal regulations, however, a value for the long-term incentive must be reported in the year it is granted. For determining this value, an "at target" calculation is used, which is based on achieving an increase of 30 percent in earnings per preferred share (EPS) in the performance period. The calculation results in an assumed amount of 1,574,500 euros (previous year: 1,539,250 euros).

Compensation for the reporting period granted to members of the Management Board serving in 2013, separated into the above-mentioned components, is shown in the following table:

Remuneration of Management Board members who served in 2013

in euros		Cash components: Fixed salary	Cash components: Variable annual remuneration	Cash components: Other emoluments	Total cash emoluments	Variable long-term incentive [1]	Total remuneration
Kasper Rorsted [2]	2013	1,050,000	5,281,225	53,333	6,384,558	399,500	6,784,058
	2012	*1,050,000*	*4,659,939*	*66,015*	*5,775,954*	*399,500*	*6,175,454*
Jan-Dirk Auris	2013	700,000	3,074,250	22,501	3,796,751	235,000	4,031,751
	2012	*700,000*	*2,708,788*	*20,266*	*3,429,054*	*235,000*	*3,664,054*
Carsten Knobel (since 7/1/2012)	2013	700,000	3,074,250	26,928	3,801,178	235,000	4,036,178
	2012	*350,000*	*1,334,394*	*9,827*	*1,694,221*	*117,500*	*1,811,721*
Kathrin Menges	2013	700,000	3,074,250	15,745	3,789,995	235,000	4,024,995
	2012	*595,000*	*2,369,969*	*15,418*	*2,980,387*	*199,750*	*3,180,137*
Bruno Piacenza	2013	700,000	3,074,250	21,259	3,795,509	235,000	4,030,509
	2012	*700,000*	*2,708,788*	*34,844*	*3,443,632*	*235,000*	*3,678,632*
Hans Van Bylen [2]	2013	700,000	3,074,250	27,394	3,801,644	235,000	4,036,644
	2012	*700,000*	*2,708,788*	*26,490*	*3,435,278*	*235,000*	*3,670,278*
Total	2013	4,550,000	20,652,475	167,160	25,369,635	1,574,500	26,944,135
	2012	*4,095,000*	*16,490,666*	*172,860*	*20,758,526*	*1,421,750*	*22,180,276*

[1] 2013 LTI payout in 2016; these figures will only be attained in the event that the adjusted earnings per preferred share increase by 30 percent in the performance period.
[2] The 2010 LTI payout in 2013 reflected the actual performance achieved, and amounted to 802,500 euros to Kasper Rorsted, and 535,000 euros to Hans Van Bylen.

In the year under review, no member of the Management Board was granted non-standard benefits by the company in connection with 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 reporting period.

Structure of Management Board remuneration

in euros		Fixed salary	Short-term components of variable annual remuneration	Long-term remuneration components: Long-term components of variable annual remuneration	Long-term remuneration components: Long-term incentive	Other emoluments	Total remuneration
Total	**2013**	**4,550,000**	**12,391,485**	**8,260,990**	**1,574,500**	**167,160**	**26,944,135**
		16.9%	***46.0%***	***30.7%***	***5.8%***	***0.6%***	***100.0%***
Total	2012	4,095,000	9,894,400	6,596,266	1,421,750	172,860	22,180,276
		18.5%	*44.6%*	*29.7%*	*6.4%*	*0.8%*	*100.0%*

Pension benefits

The pension benefits accruing to the members of the Management Board and the former management of Henkel KGaA as of the reporting date, and contributions to the pension scheme made in 2013, are shown in the following table:

Pension benefits

in euros	Superannuation lump sum		Basic annuity	
	Total lump sum	Addition to lump sum 2013	Total basic annuity (p.a.)	Addition to basic annuity 2013
Kasper Rorsted	3,787,380	648,360	1,951	118
Jan-Dirk Auris	887,220	391,320	563	142
Carsten Knobel	448,560	391,320	246	146
Kathrin Menges	570,510	391,320	338	126
Bruno Piacenza	887,220	391,320	501	129
Hans Van Bylen	2,613,914	391,320	1,788	115

The figures calculated in accordance with IAS 19 for entitlements acquired in 2013 (service cost) are as follows: 589,203 euros (2012: 637,587 euros) for Kasper Rorsted; 386,169 euros (2012: 421,794 euros) for Jan-Dirk Auris; 228,357 euros (2012: 167,641 euros) for Carsten Knobel; 237,127 euros (2012: 256,904 euros) for Kathrin Menges; 383,672 euros (2012: 421,085 euros) for Bruno Piacenza; and 389,976 euros (2012: 421,064 euros) for Hans Van Bylen.

The present values according to IAS 19 of the entitlements acquired up to and including 2013 are as follows: 4,380,841 euros (2012: 3,403,225 euros) for Kasper Rorsted; 1,661,066 euros (2012: 1,493,319 euros) for Jan-Dirk Auris; 1,198,018 euros (2012: 1,081,869 euros) for Carsten Knobel; 1,029,716 euros (2012: 788,008 euros) for Kathrin Menges; 953,417 euros (2012: 501,536 euros) for Bruno Piacenza; and 4,024,577 euros (2012: 3,413,281 euros) for Hans Van Bylen.

For pension obligations to former members of the Management Board and the former management of Henkel KGaA as well as the former management of its legal predecessor and surviving dependents, 95,956,228 euros (previous year: 90,881,294 euros) is deferred. Amounts paid to such recipients during the year under review totaled 7,626,894 euros (previous year: 7,041,167 euros).

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

For assumption of personal liability and management, Henkel Management AG in its function as Personally Liable Partner receives 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 corporation's business, including the emoluments and pensions paid to its corporate 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 is determined by the Annual General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association.

Each member of the Supervisory Board and of the Shareholders' Committee receives a fixed fee of 70,000 euros and 100,000 euros per year respectively. The Chairperson of the Supervisory Board and the Chairperson of the Shareholders' Committee each receives double this amount, and the Vice-chairperson in each case one and a half times the aforementioned amount.

Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each receive additional remuneration of 100,000 euros; if they are the Chairperson of one or more subcommittees, they receive 200,000 euros.

Members of the Supervisory Board who are also members of one or more committees each receive additional remuneration of 35,000 euros; if they are the Chairperson of one or more committees, they receive 70,000 euros. Activity in the Nominations Committee is not remunerated separately.

The higher remuneration allocated to the members of the Shareholders' Committee as compared to the Supervisory Board takes into account that, under the Articles of Association, the Shareholders' Committee participates in the management of the corporation.

Other provisions

The members of the Supervisory Board or a committee receive an attendance fee amounting to 1,000 euros for each meeting in which they participate. If several meetings take place on one day, the attendance fee is only paid once. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses incurred in connection with their positions. 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 directors and officers insurance (D&O insurance) for directors and officers of the Henkel Group. For members of the Supervisory Board and Shareholders' Committee there is a deductible amounting to 10 percent per loss event, subject to a maximum for the fiscal year of one and a half times their annual fixed remuneration.

Remuneration for 2013

Total remuneration paid to the members of the Supervisory Board for the year under review (fixed fee, attendance fee, remuneration for committee activity) amounted to 1,529,589 euros plus VAT (previous year: 1,580,000 euros plus VAT). Of this amount, fixed fees accounted for 1,192,589 euros, attendance fees 69,000 euros, and remuneration for committee activity (including associated attendance fees) 268,000 euros.

Total remuneration paid to the members of the Shareholders' Committee for the year under review (fixed fee and remuneration for committee activity) amounted to 2,350,000 euros (previous year: 2,350,000 euros). Of this amount, fixed fees accounted for 1,150,000 euros and remuneration for committee activity 1,200,000 euros.

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 annual remuneration 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 remuneration.

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

Supervisory Board remuneration

in euros		Components of total remuneration: Fixed fee	Attendance fee	Fee for committee activity[1]	Total remuneration[2]
Dr. Simone Bagel-Trah[3], Chair	**2013**	**140,000**	**4,000**	**38,000**	**182,000**
	2012	*140,000*	*5,000*	*39,000*	*184,000*
Winfried Zander[3], Vice-chair	**2013**	**105,000**	**4,000**	**39,000**	**148,000**
	2012	*105,000*	*5,000*	*39,000*	*149,000*
Jutta Bernicke	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*70,000*	*6,000*	*–*	*76,000*
Dr. Kaspar von Braun	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*70,000*	*6,000*	*–*	*76,000*
Boris Canessa (since 4/16/2012)	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*49,727*	*4,000*	*–*	*53,727*
Johann-Christoph Frey (until 4/16/2012)	**2013**	**–**	**–**	**–**	**–**
	2012	*20,273*	*2,000*	*–*	*22,273*
Ferdinand Groos (since 4/16/2012)	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*49,727*	*4,000*	*–*	*53,727*
Béatrice Guillaume-Grabisch (since 4/16/2012)	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*49,727*	*4,000*	*–*	*53,727*
Peter Hausmann[3] (since 4/15/2013)	**2013**	**49,863**	**2,000**	**27,932**	**79,795**
	2012	*–*	*–*	*–*	*–*
Birgit Helten-Kindlein[3]	**2013**	**70,000**	**4,000**	**39,000**	**113,000**
	2012	*70,000*	*5,000*	*39,000*	*114,000*
Prof. Dr. Michael Kaschke[3]	**2013**	**70,000**	**3,000**	**39,000**	**112,000**
	2012	*70,000*	*4,000*	*28,864*	*102,864*
Barbara Kux (since 7/3/2013)	**2013**	**34,904**	**2,000**	**–**	**36,904**
	2012	*–*	*–*	*–*	*–*
Thomas Manchot (until 4/16/2012)	**2013**	**–**	**–**	**–**	**–**
	2012	*20,273*	*2,000*	*–*	*22,273*
Mayc Nienhaus	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*70,000*	*6,000*	*–*	*76,000*
Thierry Paternot (until 1/14/2013)	**2013**	**2,685**	**–**	**–**	**2,685**
	2012	*70,000*	*6,000*	*–*	*76,000*
Andrea Pichottka	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*70,000*	*5,000*	*–*	*75,000*
Dr. Martina Seiler	**2013**	**70,000**	**4,000**	**–**	**74,000**
	2012	*70,000*	*6,000*	*–*	*76,000*
Prof. Dr. Theo Siegert[3]	**2013**	**70,000**	**4,000**	**74,000**	**148,000**
	2012	*70,000*	*5,000*	*63,863*	*138,863*
Edgar Topsch	**2013**	**70,000**	**5,000**	**–**	**75,000**
	2012	*70,000*	*6,000*	*–*	*76,000*
Michael Vassiliadis[3] (until 4/15/2013)	**2013**	**20,137**	**2,000**	**11,068**	**33,205**
	2012	*70,000*	*5,000*	*37,000*	*112,000*
Dr. Bernhard Walter[3] (until 4/16/2012)	**2013**	**–**	**–**	**–**	**–**
	2012	*20,273*	*1,000*	*21,273*	*42,546*
Total	**2013**	**1,192,589**	**69,000**	**268,000**	**1,529,589**
	2012	*1,225,000*	*87,000*	*268,000*	*1,580,000*

[1] Remuneration for service on the Audit Committee, including attendance fee; there is no separate remuneration payable for service on the Nominations Committee.
[2] Figures do not include VAT.
[3] Member of the Audit Committee. Audit Committee Chair: Prof. Dr. Theo Siegert.

Shareholders' Committee remuneration

in euros		Components of total remuneration: Fixed fee	Components of total remuneration: Fee for committee activity	Total remuneration
Dr. Simone Bagel-Trah, Chair (Chair Human Resources Subcommittee)	**2013**	**200,000**	**200,000**	**400,000**
	2012	*200,000*	*200,000*	*400,000*
Dr. Christoph Henkel, Vice-chair (Chair Finance Subcommittee)	**2013**	**150,000**	**200,000**	**350,000**
	2012	*150,000*	*200,000*	*350,000*
Prof. Dr. Paul Achleitner (Member Finance Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*100,000*	*100,000*	*200,000*
Boris Canessa (until 4/16/2012) (Member HR Subcommittee)	**2013**	**–**	**–**	**–**
	2012	*28,962*	*28,962*	*57,924*
Johann-Christoph Frey (since 4/16/2012) (Member HR Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*71,038*	*71,038*	*142,076*
Stefan Hamelmann (Vice-chair Finance Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*100,000*	*100,000*	*200,000*
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*100,000*	*100,000*	*200,000*
Dr. Norbert Reithofer (Member Finance Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*100,000*	*100,000*	*200,000*
Jean-François van Boxmeer (since 4/15/2013) (Member HR Subcommittee)	**2013**	**71,233**	**71,233**	**142,466**
	2012	*–*	*–*	*–*
Konstantin von Unger (Vice-chair HR Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*100,000*	*100,000*	*200,000*
Karel Vuursteen (until 4/15/2013) (Member HR Subcommittee)	**2013**	**28,767**	**28,767**	**57,534**
	2012	*100,000*	*100,000*	*200,000*
Werner Wenning (Member HR Subcommittee)	**2013**	**100,000**	**100,000**	**200,000**
	2012	*100,000*	*100,000*	*200,000*
Total	**2013**	**1,150,000**	**1,200,000**	**2,350,000**
	2012	*1,150,000*	*1,200,000*	*2,350,000*

Shares and bonds

- Henkel shares reach historic highs
- Henkel preferred share's DAX 30 weighting increased
- Henkel's position in leading sustainability indices confirmed
- International, widely diversified shareholder structure

Henkel shares showed an extremely positive performance in 2013. Over the course of the year, the DAX rose by 25.5 percent to 9,552.16 points. The index for consumer goods stocks – the Dow Jones Euro Stoxx Consumer Goods – increased 18.9 percent, closing at 502.82 points. Against this market backdrop, the price of Henkel preferred shares increased to 84.31 euros, closing the year 35.5 percent higher on a year-on-year basis. Our ordinary share price posted even stronger gains, ending the period 45.7 percent higher at 75.64 euros. As such, our shares clearly performed better than both the DAX and other shares representing the consumer goods sector.

In the course of the year, Henkel shares largely tracked the overall market, and generally performed very well. They started with price gains in the first quarter and outperformed the DAX and consumer goods stocks. The consumer goods sector labored under weak market conditions in the second quarter, which resulted in share price declines overall. Henkel shares and consumer goods stocks were weaker than the DAX, which posted slight gains in the second quarter. Both Henkel shares and consumer goods stocks posted considerable gains in the third quarter, and outperformed the DAX. On December 27, Henkel shares reached new historic highs of 84.48 euros for the preferred share and 75.81 euros for the ordinary share. Prices for consumer goods stocks also rose slightly in the fourth quarter, but nowhere near as strongly as the Henkel shares. The DAX rose considerably, but still lagged somewhat behind the performance of the Henkel share prices. Overall, Henkel shares closed the year much stronger than their relevant benchmark indices.

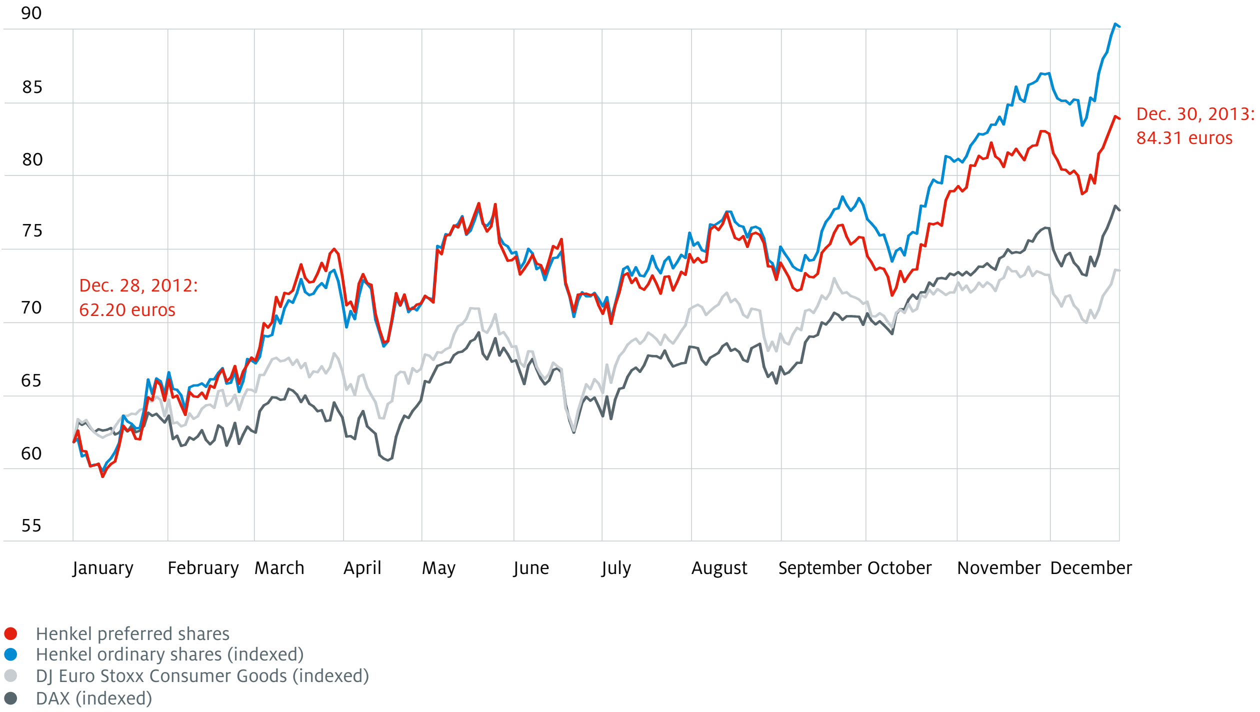
Key data on Henkel shares 2009 to 2013

in euros	2009	2010	2011	2012	2013
Earnings per share					
Ordinary share	1.38	2.57	2.67	3.40 [1]	**3.65**
Preferred share	1.40	2.59	2.69	3.42 [1]	**3.67**
Share price at year-end [2]					
Ordinary share	31.15	38.62	37.40	51.93	**75.64**
Preferred share	36.43	46.54	44.59	62.20	**84.31**
High for the year [2]					
Ordinary share	31.60	40.30	41.10	52.78	**75.81**
Preferred share	36.87	48.40	49.81	64.61	**84.48**
Low for the year [2]					
Ordinary share	16.19	30.31	30.78	37.25	**50.28**
Preferred share	17.84	35.21	36.90	44.31	**59.82**
Dividends					
Ordinary share	0.51	0.70	0.78	0.93	**1.20 [3]**
Preferred share	0.53	0.72	0.80	0.95	**1.22 [3]**
Market capitalization [2] in bn euros	**14.6**	**18.3**	**17.6**	**24.6**	**34.7**
Ordinary share in bn euros	8.1	10.0	9.7	13.5	**19.7**
Preferred share in bn euros	6.5	8.3	7.9	11.1	**15.0**

[1] Prior-year figures adjusted in application of IAS 19 revised (see notes on page 116).
[2] Closing share prices, Xetra trading system.
[3] Proposal to shareholders for the Annual General Meeting on April 4, 2014.

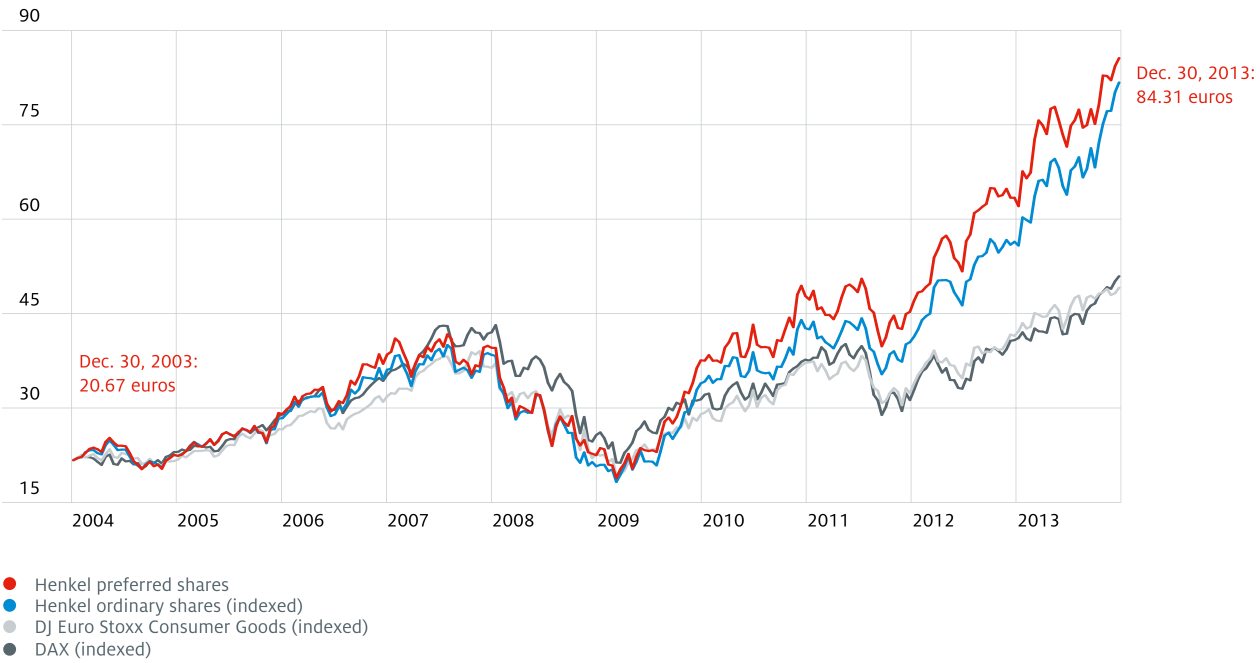
Henkel share performance versus market
January through December 2013

in euros



Henkel share performance versus market
2004 through 2013

in euros



The preferred shares traded at an average premium of 18.3 percent over the ordinary shares in 2013.

Year on year, the trading volume of preferred shares declined. Each trading day saw an average of 0.6 million preferred shares changing hands (2012: 0.8 million). The average volume for our ordinary shares declined slightly to about 118,000 shares per trading day (2012: 121,000). Due to very positive share price developments, the market capitalization of our ordinary and preferred shares increased from 24.6 billion euros to 34.7 billion euros.

34.7 bn euros
market capitalization.

Henkel shares remain an attractive investment for long-term investors. Shareholders who invested the equivalent of 1,000 euros when Henkel preferred shares were issued in 1985, and re-invested the dividends received (before tax deduction) in the stock, had a portfolio value of about 26,893 euros at the end of 2013. This represents an increase in value of 2,589 percent or an average yield of 12.4 percent per year. Over the same period, the DAX provided an annual yield of 7.8 percent. Over the last five and ten years, the Henkel preferred share has shown an average yield of 18.8 and 17.2 percent per year, respectively, offering a significantly higher return than the DAX's returns of 14.7 percent and 9.2 percent for the same 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 listed on all regional stock exchanges in Germany. In the USA, investors are able to invest in 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 outstanding for ordinary and preferred shares at the end of the year was about 3.7 million (2012: 3.5 million).

The international importance of Henkel preferred shares derives not least from their inclusion in many leading indices that serve as important indicators for capital markets, and 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's inclusion in the Dow Jones Titans 30 Personal & Household Goods Index makes it one of the 30 most important corporations in the personal and household goods sector worldwide. As a DAX stock, Henkel is one of the 30 most important exchange-listed companies in Germany.

Share data

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

Once again our advances and achievements in sustainable management earned recognition from external experts in 2013. Henkel's standing was confirmed in a variety of national and international sustainability ratings and indices. The Dow Jones Sustainability Indices (DJSI World and DJSI Europe) listed Henkel for the seventh consecutive time as industry leader in the "household products" sector. Henkel has been represented every year since 2001 in the ethics index FTSE4Good, and in the "Stoxx Global ESG Leaders" index family since its launch by Deutsche Börse in 2011. Our membership in the Ethibel Pioneer Investment Register was confirmed and we were also included in three new indices published by Euronext and Vigeo. As one of only 50 companies worldwide, Henkel was also confirmed once again in 2013 as a member of the Global Challenges Index.

At year-end 2013, the market capitalization of the preferred shares included in the DAX index was 15.0 billion euros, putting Henkel in 18th place among DAX companies (2012: 20th place). In terms of trading volume, Henkel ranked 26th (2012: 23rd). Our DAX weighting rose to 1.83 percent (2012: 1.63 percent).

International shareholder structure

Our preferred shares – the significantly more liquid class of stock – have a free float of 100 percent. A large majority of these shares are owned by institutional investors, whose shareholdings are broadly distributed internationally.

According to notices received by the company on December 14, 2013, members of the Henkel share-pooling agreement own a majority of the ordinary shares amounting to 58.68 percent. We have received no other notices indicating that a shareholder holds more than 3 percent of the voting rights (notifiable ownership).

In the period up to 2007, Henkel repurchased around 7.5 million preferred shares for the senior management Stock Option Plan. As of December 31, 2013, this treasury stock amounted to 3.7 million preferred shares.

Employee share program

Since 2001, Henkel has offered an employee share program (ESP). For each euro invested in 2013 by an employee (limited to 4 percent of salary up to a maximum of 4,992 euros per year), Henkel added an additional 33 eurocents. Around 11,500 employees in 54 countries purchased Henkel preferred shares under this program in 2013. At year-end, some 14,600 employees held a total of close to 3 million shares, representing approximately 1.7 percent of total preferred shares outstanding. The lock-up period for newly acquired ESP shares is three years.

Investing in Henkel shares through participation in our share program has proven to be very beneficial for our employees in the past. Employees who invested 100 euros each month in Henkel shares since the program was first launched, and waived interim payouts, held portfolios valued at 61,886 euros at the end of 2013. This represents an increase in value of around 330 percent or an average yield of around 13 percent per year.

Henkel bonds

Henkel is represented in the international bond markets by two bonds with a total nominal volume of 2.3 billion euros.

Further detailed information on these bonds, current bond price movements and risk premiums (credit margin) can be found on our website: www.henkel.com/bonds

Shareholder structure: institutional investors holding Henkel preferred shares

- 27 % USA
- 21 % UK
- 21 % Rest of Europe
- 13 % Germany
- 10 % Rest of world
- 8 % France

At November 2013
Source: Thomson Reuters.

Bond data

	Senior bond	Hybrid bond
Due date	3/19/2014	11/25/2104[1]
Volume	1.0 bn euros	1.3 bn euros
Nominal coupon	4.625 %	5.375 %
Coupon payment date	Mar. 19	Nov. 25
Listing	Luxembourg	Luxembourg
Security code no.	A0AD9Q	A0JBUR
ISIN code	XS0418268198	XS0234434222

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

Analyst recommendations

- 50% Buy
- 33% Hold
- 17% Sell

At December 31, 2013.
Basis: 30 equity analysts.

Pro-active capital market communication

Henkel is covered by numerous financial analysts at an international level. Around 30 equity and debt analysts regularly publish reports and commentaries on the current performance of the company.

Henkel places great importance on dialog with investors and analysts. Institutional investors and financial analysts had an opportunity to talk directly with our top management at 17 capital market conferences and roadshows held in Europe and North America.

One highlight was our Investor and Analyst Day for the Adhesive Technologies business unit on June 18, 2013 in Düsseldorf, where the management team of the business unit presented our strategy and new trends and developments in adhesives. We also conducted regular telephone conferences and numerous one-on-one meetings.

Retail investors can obtain all relevant information through telephone inquiry or via the Investor Relations website at www.henkel.com/ir. This also serves as the portal for the live broadcast of telephone conferences, and parts of the Annual General Meeting (AGM). The AGM offers all shareholders the opportunity to obtain extensive information directly from Henkel's Management Board.

The quality of our capital market communication was again evaluated in 2013 by various independent rankings. Our Investor Relations team once again matched up well against European corporations in the Home & Personal Care sector and other DAX companies – with high rankings including second place in the Household Products & Personal Care sector in the Thomson Extel Pan-European Awards. In the Institutional Investor ranking, Henkel was chosen by investors as having the best Investor Relations team in the European Household & Personal Care Products sector.

The quality of our communication and our performance with respect to non-financial indicators (environmental, social, and governance themes) was reflected in our continuous positive assessments by various ratings agencies. It is further confirmed by our inclusion in major sustainability indices as described above.

A financial calendar with all important dates is provided on the inside back cover of this Annual Report.

Fundamental principles of the Group

Operational activities

Overview

Henkel was founded in 1876. Therefore, the year under review marks the 137th in our corporate history. Today, Henkel employs around 46,850 people worldwide, and we occupy globally leading market positions in our consumer and industrial businesses.

Organization and business units

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 monitoring of 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 in this by the corporate functions.

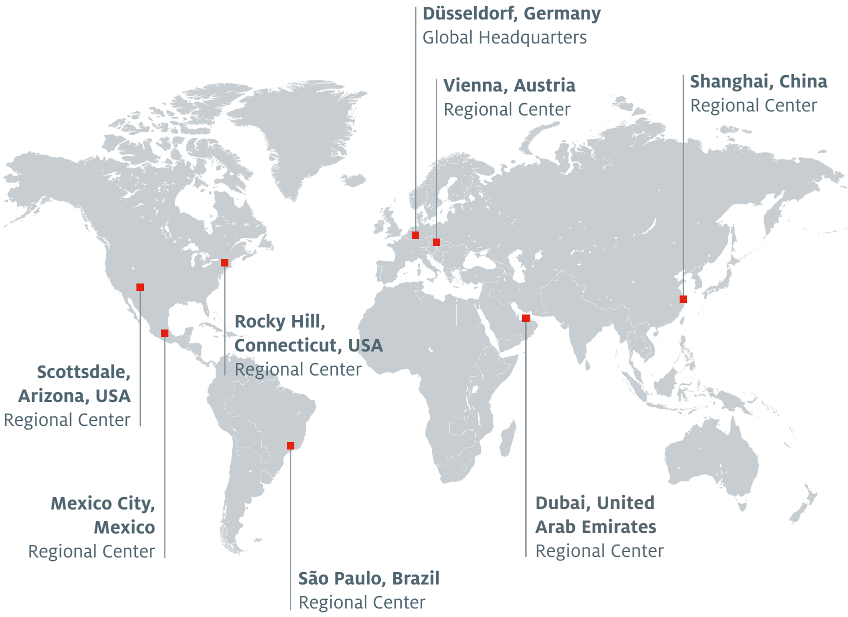
Henkel is organized into three business units:

- Laundry & Home Care
- Beauty Care
- Adhesive Technologies

Our product range in the Laundry & Home Care business unit comprises heavy-duty detergents, specialty detergents and cleaning products. The portfolio of the Beauty Care business unit encompasses hair cosmetics, products for body, skin and oral care, and products for the hair salon business. The business unit Adhesive Technologies provides customer-specific solutions worldwide with adhesives, sealants and surface treatments in two business areas: Industry, and Consumers, Craftsmen and Building.

Laundry & Home Care, Beauty Care, and Adhesive Technologies are managed on the basis of globally responsible 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. One key driver of this development is our further expansion of shared services. Implementation of the strategies at a country and regional level is the responsibility of the national affiliated 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.

Henkel around the world: regional centers



Strategy and financial targets 2016

In November 2012, we presented our Strategy 2016 based on thorough analysis of the long-term megatrends that are relevant for Henkel, and of Henkel's individual business units. As a result, we see considerable potential, both for further organic growth and for enhanced profitability, in all three business units.

Three megatrends played a key role in the definition of our new financial targets:

1. We expect progressive consolidation among our competitors, customers and suppliers. Size will become an increasingly important factor for our ability to compete over the long term. As such, increasing our sales is essential to allow us to continue to operate successfully in our markets in the future.

2. The shift of economic growth to the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) will continue. This will require Henkel to steadily expand its position in these important markets and further increase sales in emerging markets.

3. The speed and volatility of our markets will remain high and may even increase further. This requires processes and structures that are more flexible and more efficient, to enable us to respond to changes faster than our competitors. We therefore want to continuously improve our operational excellence and deliver outstanding financial performance.

This is why

- absolute sales of the corporation as a whole,
- sales in emerging markets, and
- growth in earnings per preferred share (EPS) form the cornerstones of our financial targets through to 2016.

Financial targets 2016

By the end of 2016, we aim to generate net sales of 20 billion euros in order to further strengthen our position in the competitive global market environment. The setting of our target reflects the growing importance of emerging markets. We aim to continue achieving above-average growth in these markets and to generate net sales of 10 billion euros there by the end of 2016.

We intend to continue our outstanding financial performance through a balanced combination of growth and increasing profitability. Consequently, we aim to increase adjusted earnings per preferred share by an average of 10 percent per year (CAGR: compound annual growth rate) between 2013 and 2016.

The definition of our financial targets up to the end of 2016 assumes not only that we will constantly adapt our structures to market conditions, but also that we will strive to continuously optimize our portfolio. This will encompass both smaller and mid-sized acquisitions as well as divestments or the discontinuation of non-strategic activities (representing total sales of around 500 million euros in the period between 2013 and 2016). Potential major acquisitions or divestments are not accounted for in the financial targets.

In order to achieve our ambitious targets for 2016, we want to steadily improve both the operational capacity and the earning power of the company, while at the same time taking advantage of the strong financial position of the company to further develop our portfolio.

We have defined clear selection criteria for possible acquisitions in respect of strategic fit, financial attractiveness, and implementability. The focus in Laundry & Home Care and Beauty Care will center on strengthening our categories in the respective regions, while the focus in Adhesive Technologies will primarily be on advancing technology leadership.

Financial targets 2016

20 bn € sales

10 bn € sales in emerging markets

10 % annual growth in earnings per share[1]

[1] Average annual growth in adjusted earnings per preferred share (compound annual growth rate/CAGR).

Including continuous portfolio optimization.

Progress in fiscal 2013:
- Organically – i.e. after adjusting for foreign exchange and acquisitions/divestments – we increased sales by 3.5 percent. Sales in 2013 in absolute figures were slightly below the prior-year level, at 16.4 billion euros, due to negative foreign exchange effects amounting to 4.4 percent.
- In the emerging markets, we achieved organic sales growth of 8.3 percent. Nominally, sales were 7.2 million euros compared to 7.1 million euros in the previous year. The share of Group sales from emerging markets increased by one percentage point to 44 percent.
- We increased adjusted earnings per preferred share in 2013 from 3.70 euros to 4.07 euros, a rise of 10.0 percent over 2012. After adjustment of the prior-year figure in application of IAS 19 revised, adjusted earnings per preferred share increased by 12.1 percent[1].

Strategic priorities in summary

Outperform: leverage potential in categories

In order to outperform our competitors in our individual business units, we will leverage the growth potential in our product categories even more. In our core categories we will make investments that further strengthen and expand our leading positions. In our growth categories we will also make targeted investments, including the development of new segments. In our value categories, we will tap existing earnings potential by making suitable investments, while at the same time actively adjusting our portfolio. Between 2013 and 2016, we expect to discontinue or divest businesses and operations representing total sales of 500 million euros.

In addition to this active portfolio management, we intend to leverage the potential of our categories by concentrating on three key areas: strengthening our top brands, innovations, and focusing on customers and consumers. Until 2016, we intend to increase the share of sales attributable to our top 10 brands to around 60 percent. A substantial portion of this will come from our rigorous customer orientation and particular focus on innovations.

We are also planning to open and/or significantly expand seven research and development sites in emerging markets around the world in order to underpin our claim to innovation leadership, while benefiting from the proximity to our customers and consumers in these strategically important markets.

Progress in fiscal 2013:
- In 2013 we were able to raise the share of sales attributable to our top 10 brands by 13 percentage points to 57 percent. Consistent implementation of our umbrella brand strategy again contributed to this. As a result, we came a significant step closer to our goal of 60 percent.
- We reinforced our innovation capabilities in the emerging markets by opening four research and development facilities in India, South Africa, South Korea, and the United Arab Emirates, as well as significantly expanding our site in Russia.

Globalize: focus on regions with high potential

We will continue the successful globalization of our company in previous years and concentrate on regions and countries offering particularly high growth potential. In addition to further expanding our strong positions in mature markets, we specifically want to focus on further building our existing positions in emerging markets and on accelerating growth. We also plan to enter new markets on a selective basis.

Until the end of 2016, we plan to increase sales in emerging markets to 10 billion euros. We expect twelve countries from the emerging markets to rank among our top 20 countries with the highest sales by 2016. At the same time, we want to take full advantage of our strong positions and the potential in mature markets to increase our earning power compared to 2012 and to achieve more top positions.

[1] See notes on page 116.

Progress in fiscal 2013:
- We continued to post profitable sales growth in emerging markets combined with an increase in the share of sales from emerging markets to 44 percent.
- The mature markets contributed to EBIT growth through continued strong focus and cost efficiency.

Simplify: drive operational excellence

We will continuously improve our operational excellence to enable us to respond to the increasing speed and persisting volatility in our markets. To this end, we intend to further standardize our processes, invest in information technology (IT) to make these processes faster and more efficient and to improve our cost efficiency, and reduce the ratio of administrative costs to total sales. We also plan to further optimize our global presence by continuing to consolidate our production sites until the end of 2016. In addition, we aim to keep our net working capital relative to sales at the low level already achieved.

Plans for the future also include further optimization of our purchasing processes, and expansion of our shared services. Between 2013 and 2016, we want to reduce the number of global suppliers by about 40 percent, and increase the number of employees working in our shared service centers to more than 3,000. We also plan to establish two more shared service centers for the North Africa/Middle East region and the greater region of China/Japan/South Korea.

Overall, we intend to raise our investments by more than 40 percent to about 2 billion euros between 2013 and 2016. Investments in IT infrastructure will be one key lever for optimizing our processes. These will increase between 2013 and 2016. We intend to reduce the complexity of our IT systems and significantly decrease the number of processes.

Progress in fiscal 2013:
- In 2013, the number of employees in shared service centers grew to more than 2,000.
- We continued to optimize our global presence and in the process have reduced our production sites by seven to 164.
- We further improved net working capital in relation to sales, reducing it to 2.3 percent.

Inspire: strengthen our global team

Further strengthening our global team will be a key element in the successful development of Henkel.

We will adopt an even more active approach to competing internationally for talented professionals to ensure Henkel's continued ability to recruit and retain the best possible candidates around the world. One key driver of this will be the rigorous alignment of short-term and long-term remuneration components to individual performance and overall company performance. Team diversity with respect to nationality, gender and age/professional experience will also play an important role.

Progress in fiscal 2013:
- To promote optimal career development for all employees, we significantly expanded our program of globally harmonized training schemes offered by the Henkel Global Academy in 2013.
- We have instituted clear leadership principles throughout Henkel with the aid of Leadership Principles workshops in all regions.
- The long-term incentive (LTI) scheme for upper management levels was reviewed and restructured for the 2013 cycle in order to strengthen the motivation to perform and further support the attainment of our financial targets.
- The proportion of managers from emerging markets increased to around 31 percent.

Sustainability strategy 2030

Our corporate values 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. We aim to pioneer 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 simultaneous increase in global economic output will lead to rising consumption and resource needs. The pressure on available resources will thus intensify in the coming decades. This is why the idea at the heart of our new sustainability strategy is to achieve 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 environmental 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 customers and consumers to develop and implement viable solutions for the future. By doing so, we will be contributing both to sustainable development and to our company's economic success.

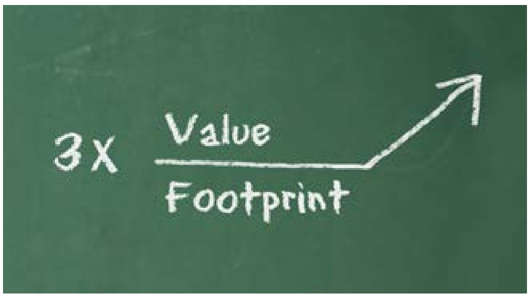
Our goal for 2030: triple our efficiency

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

By 2030, therefore, we want to triple the value we create through our business operations in relation to the environmental footprint of our products and services. This means we want to be three times more efficient. We call this goal "Factor 3." One way to achieve it is to triple the value we create while leaving the footprint at the same level. Or we can reduce the environmental footprint to one third of today's level, and achieve our "Factor 3" improvement in efficiency by delivering the same value.

Factor 3

To reach this goal by 2030, we will have to improve our efficiency by an average of 5 to 6 percent each year. We have therefore set concrete interim targets for our focal areas for the five years between 2011 and 2015 (see chart on the next page). For the period up to 2015, we intend to improve the relationship between the value we create and the environmental footprint of our business activities by 30 percent overall.



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

Our contributions in six focal areas

To successfully implement our strategy, we are concentrating on six focal areas 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 in 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 health and safety, and contributions to social progress. The three other focal areas describe the ways in which we want to reduce our environmental footprint, for instance through reduced water and energy consumption and less waste.

Our approach for sustainable business processes

In order to successfully establish our strategy and reach our goals, they must be ever-present in the minds and day-to-day actions of our employees and mirrored 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 innovation and information, and through products that offer better performance with a smaller environmental footprint, thus reducing resource use and negative environmental impacts.

Our partners are key to driving sustainability along our value chains and in all areas of business and daily life. We support them with our products and expertise. And we work together 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 reduce their own environmental footprint.

Our focal areas and targets for the five-year period from 2011 to 2015

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

Organization

The Management Board bears overall responsibility for our sustainability strategy and objectives, and their implementation in the corporation. Henkel's Sustainability Council steers our sustainability activities in collaboration with the individual business units and functions, and our regional and national affiliated companies.

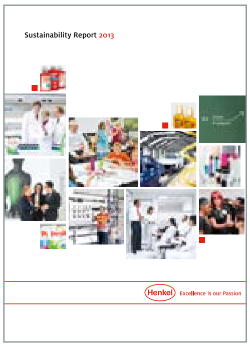
Our understanding of responsible behavior has been specified and communicated to our employees worldwide in our Code of Corporate Sustainability and Code of Conduct. From these codes are derived our more detailed internal standards governing safety, health and environmental protection, our social standards and our Group purchasing standards. Compliance with these rules is regularly monitored throughout the Group by internal audits performed at our production and administrative sites, and increasingly also 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, fundamental labor standards and environmental protection, and to work against all forms of corruption.

Stakeholder dialog

Viable solutions for promoting sustainability can only be developed in dialog with all 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 dialog with our stakeholders as an opportunity to identify the requirements of our different markets at an early stage and to define the directions which our activities should take. Our dialog with various stakeholder groups enables us to access new ideas for our company, which flow continuously into our strategy development and reporting.

We use 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 dialog. More details and background reading on the subject of sustainability can be found in our Sustainability Report. In this report, we document the high priority sustainability has in our company, while at the same time satisfying the reporting requirements laid down in the United Nations Global Compact.



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 versions.

www.henkel.com/sustainabilityreport

Progress in fiscal 2013

- In all areas, we made considerable progress toward our goals for 2015, and achieved our targets for individual areas early, including an improvement of 15 percent (base year 2010) in energy efficiency and 50 percent (base year 2010) in workplace safety.
- To enable a systematic comparison of the sustainability profile of two different products or processes, we established the "Henkel Sustainability#Master®" as an assessment tool in all three business units.
- We have further integrated sustainability topics into our internal training programs and trained around 1,500 employees as "sustainability ambassadors."
- To monitor compliance among our suppliers with our requirements in the areas of safety, health, environment, quality, human rights, labor standards, and the fight against corruption, we established the initiative "Together for Sustainability" in cooperation with five other companies, initiated around 600 self-assessments and conducted over 250 audits.
- Henkel's leading role in sustainability has been confirmed through many different national and international sustainability ratings and indices.

7 years

in succession sector leader in the Dow Jones Sustainability Index (see page 44).

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

Management system and performance indicators

Henkel manages the company based on the strategy and the financial targets for 2016.

As defined and described in the section "Strategy and financial targets 2016," our financial targets are as follows: For 2016 we aim to generate net sales of 20 billion euros. We recognize the increasing importance of the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) by targeting above-average growth in these regions. Here we intend to generate net sales of 10 billion euros in 2016. Furthermore, we aim to increase adjusted [1] earnings per preferred share by an average of 10 percent per year through to 2016. The financial targets for 2016 are our most important performance indicators.

For efficient management of the Group, we have transferred the Henkel Group strategy into strategic plans for the three business units, Laundry & Home Care, Beauty Care, and Adhesive Technologies, as well as for their respective business areas. The financial targets are represented together with the businesses in both the year and the medium-term plans. A regular comparison of these plans with current developments and reporting of expected figures enables focused management of the company based on the described performance indicators.

Our management system is supplemented by additional key financials relevant to the capital market – primarily, adjusted return on sales (EBIT).

Moreover, we report further key performance indicators, such as net working capital as a percentage of sales. We are committed to the principle of value creation and use economic value added (EVA®) to assess current and future growth. EVA® is a measure of the surplus economic value generated by a company over a certain period.

Cost of capital

8.0 %

Group WACC before tax in fiscal 2013.

The cost of capital is calculated as a weighted average of the cost of equity and debt capital (WACC). In fiscal 2013 we applied a WACC before tax of 8.0 percent. After tax, the figure was 5.5 percent. We regularly review our cost of capital in order to reflect changing market conditions. Starting in fiscal 2014, we will be applying a WACC of 8.5 percent before tax and 6.0 percent after tax.

We apply different WACC rates depending on the business unit involved. These are based on business unit-specific beta factors determined from a peer group benchmark. In fiscal 2013, this resulted in a WACC before tax of 7.5 percent (5.25 percent after tax) for both Laundry & Home Care and Beauty Care, and of 10.5 percent before tax (7.25 percent after tax) for Adhesive Technologies. In 2014 we will be using a weighted average cost of capital (WACC) of 8.5 percent before tax (6.0 percent after tax) for the Laundry & Home Care and Beauty Care business units, and 11.0 percent before tax (7.75 percent after tax) for Adhesive Technologies.

Weighted average cost of capital (WACC)

	2013	from 2014
Risk-free interest rate	2.25 %	2.75 %
Market risk premium	5.5 %	5.5 %
Beta factor	0.7	0.7
Cost of equity after tax [1]	**6.1 %**	**6.7 %**
Cost of debt capital before tax	3.2 %	3.6 %
Tax shield (30 %)	– 1.0 %	– 1.1 %
Cost of debt capital after tax [1]	**2.2 %**	**2.5 %**
Share of equity [2] (peer group structure)	85 %	85 %
Share of debt capital [2] (peer group structure)	15 %	15 %
WACC after tax [1]	**5.5 %**	**6.0 %**
Tax rate	30 %	30 %
WACC before tax [1]	**8.0 %**	**8.5 %**

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

WACC before tax by business unit

	2013	from 2014
Laundry & Home Care	7.5 %	8.5 %
Beauty Care	7.5 %	8.5 %
Adhesive Technologies	10.5 %	11.0 %

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

Economic report

Macroeconomic and industry-related conditions

Overview:
moderate growth while general economic conditions remain difficult
In 2013, the global economy[1] showed only moderate growth. Gross domestic product grew by approximately 2 percent around the world. Mature markets exceeded the prior year's level only slightly, by approximately 1 percent, while emerging markets achieved an increase of approximately 4 percent. This trend continues to be driven by the ongoing heterogeneity of economic development in Europe, the uncertainty surrounding the fiscal policy in the USA, and the slow-down of growth in the emerging markets.

Developments in 2013:
stronger second half of the year
Over the course of the year under review, global economic growth improved. Economic output recovered primarily in the second half of the year, influenced by improvements in Germany, the USA and Japan.

Industry and consumption:
industry shows moderate growth
With an increase of approximately 3 percent, industrial production expanded somewhat more than private consumption, which rose by around 2 percent. While the export-dependent industries in particular posted moderate increases, growth in consumer-related sectors was markedly subdued.

Regions:
mature markets moderate, emerging markets robust
Over the year as a whole, both the North American and Japanese economies posted moderate growth of around 2 percent. In Western Europe, economic growth was only slightly positive overall due to recessionary trends seen particularly in some of the Southern European countries, whereas Germany's economy managed to grow by approximately 0.5 percent, driven by exports and low unemployment. The emerging markets of Asia (excluding Japan), Latin America and Africa/Middle East registered comparatively robust economic growth, albeit at a rate that was below the previous year. Asia (excluding Japan) boosted its economic output by approximately 5 percent, driven mainly by China. Latin America grew by approximately 2.5 percent and Africa/Middle East approximately 3 percent. By contrast, economic growth slowed to approximately 1 percent in Eastern Europe, primarily as a result of declining demand from Western Europe.

[1] Source of global economic data, industry & consumption: Feri EuroRating Services, January 2014.

Direct materials:
unchanged year on year
Overall, prices for externally sourced materials and services (direct materials) remained at the level of the previous year. On average, raw material prices in 2013 were slightly below the level of the prior year. Input materials, which are used in the production of direct materials, were again characterized by fluctuation in 2013. The price movements varied by region and type of input material. In contrast, prices for packaging and purchased goods rose slightly.

Currencies:
devaluation against the euro
Taking the average for the year, the US dollar and the important currencies for Henkel in the emerging markets experienced substantial depreciation versus the euro compared to the previous year. However, the development of the US dollar was volatile throughout the year: At the beginning of the year the euro rose steadily, occasionally reaching 1.36 US dollars toward the end of January. Around the middle of the year, the euro drifted steadily lower to 1.30 US dollars before ending the year at just under 1.38 US dollars.

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

Average rates of exchange versus the euro

	2012	2013
Chinese yuan	8.10	**8.16**
Mexican peso	16.90	**16.97**
Russian ruble	39.93	**42.34**
Turkish lira	2.31	**2.53**
US dollar	1.28	**1.33**

Inflation:
moderate rise in global price levels
Global inflation was around 3 percent. Year on year, the rate of inflation decreased in the mature markets, while consumer prices rose in the emerging markets. The overall trend differed by region and country. Inflation declined in North America and Western Europe – including Germany. In Eastern

Europe and Asia, prices increased slightly while rising significantly in Latin America and Africa/Middle East.

Unemployment: unchanged year on year around the world

Global unemployment was on a par with the prior year at approximately 7 percent. The unemployment rate in North America improved versus the previous year to approximately 7.5 percent, while unemployment in Western Europe climbed to approximately 10 percent. Year on year, the unemployment rate in Germany remained flat at around 7 percent. It was unchanged in Eastern Europe, and improved slightly in Asia and Latin America.

Development by sector: minor increase in global consumption

Growth in private consumer spending remained subdued at around 2 percent. Consumer spending in mature markets actually increased by only around 1 percent year on year. Consumers in North America increased their spending by approximately 2 percent. The debt crisis continued to restrain consumer spending at the level of the previous year in Western Europe, while Germany experienced an increase of approximately 1 percent. The emerging markets demonstrated a higher propensity to spend, with consumption increasing by approximately 4 percent.

Industry with moderate growth

Industrial production expanded at a moderate rate of approximately 3 percent in 2013, which was again slightly faster than the economy as a whole. Growth in 2013 was driven by export-dependent sectors such as electronics, metal processing, and transport.

Developments in industrial production differed from one region to the next. In North America, production expanded by approximately 2 percent while the growth rate in Eastern Europe was below the previous year. The debt crisis actually caused negative industrial growth in Western Europe. Latin America reported significant recovery from the previous year, with growth of around 1 percent. Asia recorded growth of approximately 6 percent, similar to the previous year.

A particularly important customer sector for Henkel, the transport industry, saw production expand by approximately 3 percent. Production in the electronics sector rose by around 4 percent. Within the electronics sector, the market for basic products such as electrical systems and semiconductor units was weaker and recorded only moderate growth. Constant growth in comparison to 2012 was seen in the metal industry, which expanded by around 3 percent. Expansion in consumer-related sectors, such as the global packaging industry, was extremely sluggish. These sectors had only marginal growth along with food products, beverages, paper and printing. In 2013, production in the construction industry increased by around 3 percent.

Review of overall business performance

Henkel had a very successful 2013. With solid growth in all business units, we continued the success of the previous year.

Henkel's business performance was impacted by the aforementioned general conditions prevailing in the global economy. The economic environment was particularly characterized by the recessionary trend in Southern Europe, slowing growth momentum in the emerging markets, and the political and social unrest in the Africa/Middle East region. In addition, the US dollar depreciated significantly against the euro, as did other emerging market currencies that are relevant for Henkel.

Henkel generated sales of 16,355 million euros, which was slightly below the prior-year figure due to negative exchange rate effects. Organically, we achieved a sales increase of 3.5 percent despite the challenging market environment. The solid increase in organic sales was notably driven by very strong performance in the emerging markets. In these markets, Henkel was able to generate organic sales growth of 8.3 percent and expanded their percentage of sales to a new high of 44 percent (2012: 43 percent). In the mature markets, organic sales remained at the level of the previous year.

With prices for direct materials (raw materials, packaging, and purchased goods and services) flat versus the previous year, we were able to increase adjusted[1] gross margin by 0.9 percentage points to 48.0 percent in fiscal 2013. Particular contributions were made by savings from cost-reduction measures, improvements in production and supply chain efficiency, and selective price increases.

As a result of the improved gross margin, the continuous adjustment of our structures to our markets and customers, and further reductions in our overheads achieved by expanding shared services

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

and optimizing our production network, we were able to further improve our profitability compared to the prior year. In 2013, we achieved for the first time an adjusted return on sales of 15.4 percent (2012: 14.1 percent). All business units contributed to this success.

Adjusted earnings per preferred share grew to 4.07 euros, a substantial increase of 12.1 percent over the 2012 figure of 3.63 euros [2].

Our successful business performance is also reflected by a further improvement in our net working capital-to-sales ratio to 2.3 percent, as well as a strong free cash flow. This enabled us to transform our net debt position into a net cash position of 959 million euros (2012: –85 million euros). This gratifying performance supports our long-term ratings of "A flat" (Standard & Poor's) and "A2" (Moody's).

Results of operations

Sales and profits

Sales in fiscal 2013 were slightly below the previous year, at 16,355 million euros. With growth of 3.5 percent, organic sales – i.e. after adjusting for foreign exchange and acquisitions/divestments – showed a solid rate of increase. This was driven by both price and volume.

The rate of sales growth improved over the course of the year. While organic growth in the first half came in at 3.2 percent, it increased to 3.8 percent in the second half.

Sales development [1]

in percent	2013
Change versus previous year	– 0.9
Foreign exchange	– 4.4
Adjusted for foreign exchange	3.5
Acquisitions/divestments	0.0
Organic	3.5
of which price	0.8
of which volume	2.7

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

We achieved organic sales growth in each of our business units, further expanding our share in our relevant markets. The Laundry & Home Care business unit recorded a strong organic sales growth of 5.7 percent. The Beauty Care business unit achieved solid organic sales growth of 3.0 percent. The Adhesive Technologies business unit also generated solid organic growth of 2.7 percent.

Price and volume effects

in percent	Organic sales growth	of which price	of which volume
Laundry & Home Care	5.7	0.9	4.8
Beauty Care	3.0	0.5	2.5
Adhesive Technologies	2.7	0.8	1.9
Henkel Group	3.5	0.8	2.7

We were able to further improve organic sales in all regions:

In a highly competitive market environment, sales in the Western Europe region were slightly below the level of the previous year at 5,580 million euros. Organically, we increased sales by 0.2 percent. We were able to compensate for the effects of the recessionary developments in Southern Europe. The share of sales from the Western Europe region remained constant at 34 percent.

Sales in the Eastern Europe region increased by a nominal 1.6 percent to 3,034 million euros. The organic sales growth of 6.0 percent was driven primarily by our businesses in Turkey and Russia. The share of sales from the region increased from 18 to 19 percent.

Despite negative foreign exchange effects and the political and social unrest in some countries, our sales in the Africa/Middle East region increased nominally by 0.3 percent to 1,080 million euros. Organically, we were able to grow sales by 17.6 percent. Our business units Laundry & Home Care and Beauty Care made a particularly important contribution to this performance. The share of sales from the region remained stable at 7 percent.

Due to negative exchange rate effects, sales in the North America region decreased by 3.2 percent to 2,928 million euros. Organically, sales grew by 1.0 percent, despite fierce promotional and price competition in our consumer businesses. The share of sales from the region stayed at 18 percent.

In the Latin America region, sales remained constant at 1,061 million euros on a nominal basis. Organically, we increased sales by 8.7 percent, with

Sales

in million euros

[2] Adjusted in application of IAS 19 revised (see notes on page 116).

particular contributions from our business performance in Mexico and Brazil. The share of sales from the region remained unchanged at 6 percent.

As a result of negative exchange rate effects, sales in the Asia-Pacific region came in at 2,524 million euros, 2.8 percent below the prior-year figure. The region demonstrated a solid development with an organic sales growth rate of 3.3 percent, supported particularly by the growth in China and India. The share of sales from the Asia-Pacific region declined year on year from 16 to 15 percent.

Sales in the emerging markets of Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) increased nominally by 1.6 percent to 7,230 million euros. We achieved organic sales growth of 8.3 percent, with all business units contributing. The share of sales from emerging markets increased from 43 to 44 percent.

44 %
of our sales generated in emerging markets.

In order to continuously adapt our structures to our markets and customers, we spent 159 million euros on restructuring (previous year: 124 million euros). We further expanded our shared services and optimized our production footprint.

The following explanations relate to the results achieved by the business units adjusted for one-time charges/gains and restructuring charges, in order to provide a more transparent presentation of operational performance:

Adjusted operating profit (EBIT)

in million euros	2012	2013	+/–
EBIT (as reported)	2,199	2,285	3.9 %
One-time gains	–	– 10	
One-time charges	12	82	
Restructuring charges	124	159	
Adjusted EBIT	2,335	2,516	7.8 %

We were able to increase adjusted operating profit (adjusted EBIT) to 2,516 million euros, an increase of 7.8 percent on the prior-year figure of 2,335 million euros. All three business units contributed to this positive development. We improved adjusted return on sales (adjusted EBIT margin) for the Group by 1.3 percentage points to 15.4 percent.

The Adhesive Technologies business unit generated an excellent improvement in margin, with an increase from 15.1 to 16.9 percent. This was supported amongst other things by the consistent further development of our portfolio as well as through cost reductions and efficiency improvements. The improvement in profitability in the Laundry & Home Care business unit was also excellent, with an increase to 15.6 percent (previ-

Sales by region [1] / EBIT by region [1]

in million euros

Region	Year	Sales	EBIT
Western Europe	2012	5,610	811
	2013	5,580	1,021
Eastern Europe	2012	2,986	425
	2013	3,034	459
Africa/Middle East	2012	1,077	103
	2013	1,080	34
North America	2012	3,023	456
	2013	2,928	497
Latin America	2012	1,062	83
	2013	1,061	74
Asia-Pacific	2012	2,597	417
	2013	2,524	340

[1] Excluding Corporate.

ous year: 14.5 percent). Beauty Care posted a strong increase in adjusted return on sales to 15.0 percent (previous year: 14.5 percent). In our consumer businesses, we were able to benefit from our successful innovations and continued measures to reduce costs and improve efficiency. Further explanations relating to our business performance can be found in the description of the business units starting on page 78.

Comparison between actual business performance and guidance

In our 2013 reports, we expected organic sales growth of between 3 and 5 percent for the Henkel Group in fiscal 2013. Compared to the figures for 2012, we expected adjusted return on sales (EBIT) to increase to about 15 percent, and adjusted earnings per preferred share to rise by about 10 percent.

We delivered on our sales and earnings guidance. Our organic growth rate of 3.5 percent is within the guidance corridor. Each of the three business units made an important contribution to this growth. At Group level, we also posted a significant increase in adjusted return on sales from 14.1 to 15.4 percent, as well as a 10.0 percent improvement in adjusted earnings per preferred share, increasing the figure to 4.07 euros (2012: 3.70 euros).

Additionally, prices for direct materials (raw materials, packaging, and purchased goods and services) remained at the level of the prior year, as anticipated in our reports for 2013. Our restructuring expenses totaled 159 million euros, exceeding the expected level of 125 million euros. This reflects our ongoing efforts to adjust our structures promptly to changing market conditions. We invested 404 million euros in property, plant and equipment. We adjusted a number of individual project schedules in response particularly to the geopolitical situation in Africa/Middle East.

Guidance versus performance 2013

	Guidance for 2013	Performance in 2013
Organic sales growth	Henkel Group: 3–5 percent All business units: 3–5 percent	Henkel Group: 3.5 percent Laundry & Home Care: 5.7 percent Beauty Care: 3.0 percent Adhesive Technologies: 2.7 percent
Adjusted return on sales	Increase to about 15 percent	Increase to 15.4 percent
Adjusted earnings per preferred share	Increase of about 10 percent	Increase of 10.0 percent
Prices for direct materials	at prior-year level	at prior-year level
Restructuring charges	around 125 million euros	159 million euros
Investments in property, plant and equipment	around 450 million euros	404 million euros

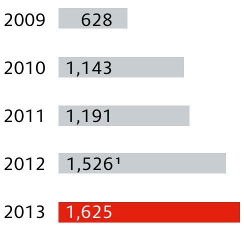
Reconciliation from sales to adjusted operating profit[1]

in million euros	2012	%	2013	%	Change
Sales	16,510	100.0	16,355	100.0	– 0.9 %
Cost of sales	– 8,738	– 52.9	– 8,497	– 52.0	– 2.8 %
Gross profit	7,772	47.1	7,858	48.0	1.1 %
Marketing, selling and distribution expenses	– 4,278	– 25.9	– 4,199	– 25.7	– 1.8 %
Research and development expenses	– 406	– 2.6	– 414	– 2.6	2.0 %
Administrative expenses	– 727	– 4.4	– 749	– 4.5	3.0 %
Other operating income/charges	– 26	– 0.1	20	0.2	–
Adjusted operating profit (EBIT)	2,335	14.1	2,516	15.4	7.8 %

[1] Calculated on the basis of units of 1,000 euros; figures commercially rounded.

Net income

in million euros



[1] Adjusted in application of IAS 19 revised.

Expense items

The following explanations relate to our operating expenses adjusted for one-time charges/gains and restructuring charges. The reconciliation statement and the allocation of the restructuring charges between the various expense items of the statement of income can be found on page 106.

Compared to the previous year, the cost of sales declined by 2.8 percent to 8,497 million euros. Gross profit rose by 1.1 percent to 7,858 million euros. We were able to improve gross margin by 0.9 percentage points to 48.0 percent, supported by selective price increases, savings from cost reduction measures, and improvements in production and supply chain efficiency.

At 4,199 million euros, marketing, selling and distribution expenses were below the prior-year figure of 4,278 million euros. Their proportion of sales declined by 0.2 percentage points to 25.7 percent. We spent a total of 414 million euros on research and development, thus keeping the ratio to sales on a par with the previous year at 2.6 percent. At 749 million euros, administrative expenses accounted for 4.5 percent of sales, slightly above the level of the previous year.

Other operating income and charges

The balance of adjusted other operating income and charges was 20 million euros. The year-on-year increase (2012: –26 million euros) was influenced, above all, by higher gains from the disposal of non-current assets following the sale of Chemofast Anchoring GmbH, and by lower provisions for legal disputes and fees.

Financial result

The financial result improved by 68 million euros[1] to –113 million euros, mainly due to our improved net financial position and improved currency hedging results. Net interest expense for pension obligations also declined.

Net income and earnings per share (EPS)

Income before tax increased by 154 million euros to 2,172 million euros. Taxes on income amounted to 547 million euros. The tax rate of 25.2 percent was higher than the previous year (24.4 percent). The adjusted tax rate increased slightly by 0.3 percentage points to 25.1 percent. Net income increased by 6.5 percent, from 1,526 million euros[1] to 1,625 million euros. After deducting 36 million euros attributable to non-controlling interests, net income attributable to shareholders of Henkel AG & Co. KGaA amounted to 1,589 million euros (+7.4 percent). Adjusted net income after deducting non-controlling interests was 1,764 million euros compared to 1,573 million euros[1] in fiscal 2012. A summary of the annual financial statements of the parent company of the Henkel Group – Henkel AG & Co. KGaA – can be found on page 168.

Earnings per preferred share (EPS) rose from 3.42 euros[1] to 3.67 euros. Earnings per ordinary share increased from 3.40 euros[1] to 3.65 euros. Adjusted earnings per preferred share amounted to 4.07 euros (previous year: 3.63 euros[1]).

[1] Prior-year figures adjusted in application of IAS 19 revised (see notes on page 116).

Dividends

Subject to the approval from the Supervisory Board and the Shareholders' Committee, future dividend payouts of Henkel AG & Co. KGaA shall, depending on the company's asset and profit positions as well as its financial requirements, amount to 25 percent to 35 percent of net income after non-controlling interests and adjusted for exceptional items. We will, consequently, propose to the Annual General Meeting an increased dividend payout compared to the previous year: 1.22 euros per preferred share and 1.20 euros per ordinary share. The payout ratio will then be 30 percent.

Return on capital employed (ROCE)

Return on capital employed (ROCE) increased from 18.7 to 20.5 percent. This is essentially due to the very strong increase in operating profit. In the Laundry & Home Care business unit, we were able to improve return on capital employed by 3.6 percentage points to 29.4 percent. At 26.6 percent, ROCE for the Beauty Care business unit was slightly above prior year. In the Adhesive Technologies business unit, we increased return on capital employed from 16.5 percent to 18.8 percent.

Economic value added (EVA®)

Economic value added (EVA®) rose by 32.9 percent to 1,247 million euros. All our business units recorded positive EVA®. The Laundry & Home Care business unit improved significantly, generating EVA® of 507 million euros, corresponding to a 29.3 percent increase over the prior year. The EVA® contribution of 323 million euros from the Beauty Care business unit also exceeded the previous year, by 13.5 percent. In the Adhesive Technologies business unit, we generated EVA® of 562 million euros, representing a significant increase of 54.8 percent.

Net assets and financial position

Acquisitions and divestments

Effective January 10, 2013, we sold Chemofast Anchoring GmbH, Willich, Germany, for 26 million euros. As of December 31, 2012, the assets and liabilities of the company were reported as held for sale. The sale transaction included the transfer of 4 million euros in cash to the buyer.

On June 6, 2013, we spent 3 million euros acquiring the outstanding non-controlling interests in Henkel Kenya Ltd., Nairobi, Kenya, increasing our shareholding from 80 percent to 100 percent.

Effective September 4, 2013, we completed an acquisition in the professional hair care segment in South Africa. The acquisition is aimed at further strengthening our presence in our emerging markets.

On December 11, 2013, we spent 66 million euros acquiring the outstanding non-controlling interests in OOO Henkel Bautechnik, Moscow, Russia, increasing our shareholding from 66 percent to 100 percent. A performance-related component of the purchase price was also agreed.

Effective December 11, 2013, we completed the full acquisition of a production facility for hair styling products in Russia from Wellchem Holding GmbH, Austria. The purchase price paid was 27 million euros. The acquisition expands our production footprint in attractive emerging markets.

Additional disclosures relating to the acquisitions and divestments can be found on pages 111 and 112 of the notes.

Neither the acquisitions and divestments nor other measures undertaken resulted in any changes in our business and organizational structure. For detailed information on our organization and business activities, please refer to the disclosures on page 47.

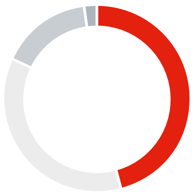
Our long-term ratings remain at "A flat" (Standard & Poor's) and "A2" (Moody's). These are also our target ratings. Looking forward, we intend not to jeopardize them when assessing possible acquisitions.

Preferred share dividends

in euros

[1] Proposal to shareholders for the Annual General Meeting on April 4, 2014.

Capital expenditures by business unit



- 45% Adhesive Technologies
- 36% Laundry & Home Care
- 17% Beauty Care
- 2% Corporate

Corporate = sales and services not attributable to the individual business units.

Capital expenditures

Capital expenditures (excluding acquisitions) in the year under review amounted to 436 million euros. Capital expenditures on property, plant and equipment for continuing operations totaled 404 million euros, following 393 million euros in 2012. We invested 32 million euros in intangible assets (previous year: 29 million euros). The majority of these capital expenditures was attributable to the Adhesive Technologies and Laundry & Home Care business units. More than two-thirds of our total capital expenditures went into expansion projects and rationalization measures. The main focus was on structural optimizations in production and capital expenditures on production plants for the manufacture of innovative product lines (Laundry & Home Care and Beauty Care). The focus in the Adhesive Technologies business unit was on consolidating production sites and expanding production capacities in emerging markets.

The major projects of 2013 were as follows:

- Construction of an automatic high-bay warehouse as central storage facility for Germany in Düsseldorf, Germany (Laundry & Home Care)
- Erection of a filling line for innovative packaging for hair colorants in Viersen, Germany (Beauty Care)
- Expansion of our new production site near Moscow, Russia (Beauty Care)
- Building of a factory for the manufacture of construction products in Stavropol, Russia (Adhesive Technologies)
- Building of injection molding systems for the production of functional components for the automotive industry in Richmond, Missouri, USA (Adhesive Technologies)
- Consolidation of production sites and expansion of production capacities in Shanghai, China (Adhesive Technologies)
- Consolidation and optimization of our IT system architecture for managing business processes in the Asia-Pacific region

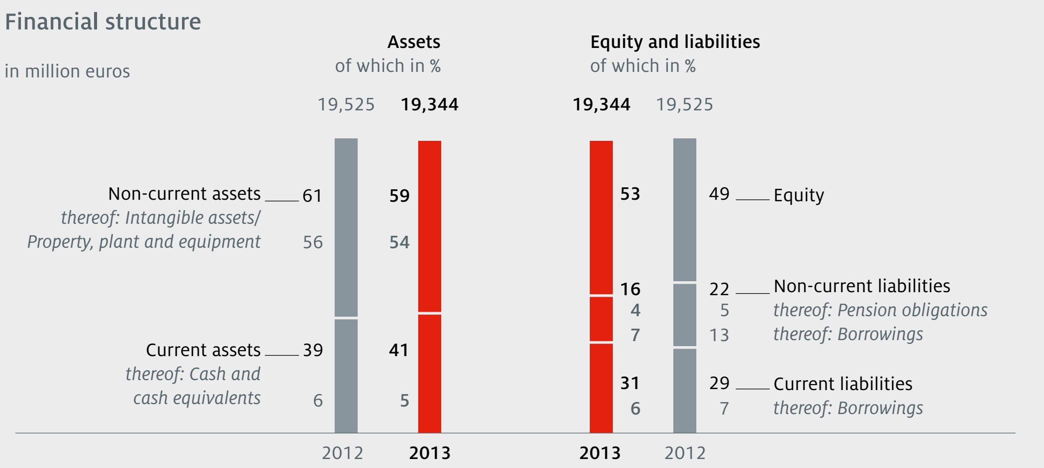
In regional terms, capital expenditures focused primarily on Europe, North America and Asia.

The first-time consolidation of subsidiaries resulted in additions to intangible assets and property, plant and equipment in the amount of 29 million euros. Details of these additions can be found on pages 111 and 112 of the notes to the consolidated financial statements.

Capital expenditures 2013

in million euros	Continuing operations	Acquisitions	Total
Intangible assets	32	12	44
Property, plant and equipment	404	17	421
Total	**436**	**29**	**465**

Financial structure



Net assets

Compared to year-end 2012, total assets decreased slightly by 181 million to 19.3 billion euros. Under **non-current assets**, the value of intangible assets decreased by 456 million euros, primarily as a result of foreign currency translation and amortization. Under property, plant and equipment, capital expenditures for continuing operations amounted to 404 million euros versus depreciation of 291 million euros. Foreign currency translation caused the value of property, plant and equipment to decrease by 97 million euros.

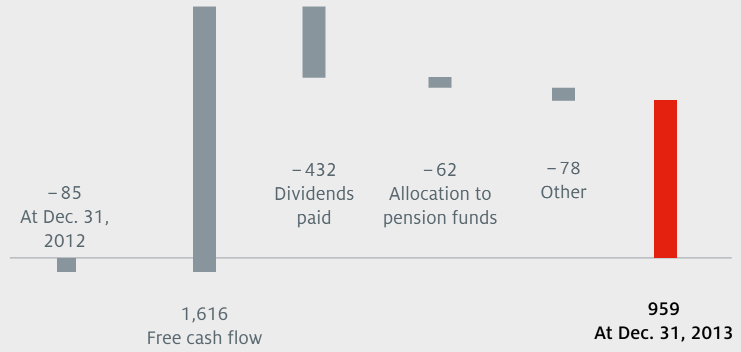
Current assets grew from 7.6 billion euros to 8.0 billion euros, influenced partly by higher trade accounts receivable. In addition, other financial assets increased due to investments in securities and time deposits. Cash and cash equivalents decreased by 187 million euros to 1.1 billion euros.

Compared to the previous year, **equity** including non-controlling interests increased to 10,158 million euros. The changes are shown in detail in the consolidated statement of changes in equity on page 107. The equity ratio increased compared to the previous year by 3.8 percentage points to 52.5 percent.

The decline in **non-current liabilities** of 1.1 billion euros to 3.1 billion euros is due to the reclassification of our senior bond, maturing in March 2014 with a redemption value of 1.0 billion euros, as current borrowings. As of December 31, 2013, our hybrid bond with a redemption value of 1.3 billion euros remained classified under non-current borrowings. Our pension obligations decreased due to the higher average discount rates.

Net financial position

in million euros



Compared to the situation as of December 31, 2012, **current liabilities** increased by 0.3 billion euros to 6.1 billion euros. Current borrowings were impacted in the reporting period by the reclassification of our senior bond, due to mature in March 2014. As a countervailing effect, current borrowings decreased due to the repayment of our senior bond, which matured in June 2013. In addition, the increase in current liabilities is also due to higher trade accounts payable and current provisions. Reflecting the development in current assets, these were higher than at the end of 2012.

Effective December 31, 2013, our **net financial position**[1] has changed from a net debt to a net cash position of 959 million euros. Net debt at December 31, 2012 amounted to 85 million euros.

Net financial position

in million euros	
2009	– 2,807
2010	– 2,066
2011	– 1,392
2012	– 85
2013	**959**

[1] Borrowings less cash and cash equivalents and readily monetizable financial instruments classified as “available for sale” or in the “fair value option,” less positive and plus negative fair values of hedging transactions.

Financial position

At 2,116 million euros, **cash flow from operating activities** in the reporting period was below the very high level of the prior-year period (2,634 million euros). The increased EBIT as well as lower income taxes paid were offset by outflows for inventories and trade accounts receivable. Higher payments for variable employee remuneration additionally reduced this figure.

The cash outflow in the **cash flow from investing activities** (–381 million euros) was 98 million euros less than the figure for the previous year. The change resulted from lower expenditures for acquisitions.

At –1,849 million euros, the cash outflow in **cash flow from financing activities** was significantly less than the cash outflow in 2012 (–2,858 million euros), despite the redemption of our senior bond in June 2013 and higher dividend payments. Cash outflow in the prior-year period was mainly due to high investments in short-term securities and time deposits, recognized under other financing transactions. In 2013, we used the proceeds from the partial sale of these securities and time deposits to redeem our senior bond.

Cash and cash equivalents decreased compared to December 31, 2012 by 187 million euros to 1,051 million euros.

At 1,616 million euros, **free cash flow** decreased compared to the previous year (2,023 million euros) as a result of the lower cash flow from operating activities.

Financing and capital management

Financing of the Group is centrally managed by Henkel AG & Co. KGaA. Funds are, as a general rule, acquired centrally and distributed within the Group. We pursue a conservative and flexible investment and borrowings policy with a balanced investment and financing portfolio. The primary goals of our 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 optimization of our capital structure, adoption of an appropriate dividend policy, equity management, acquisitions, divestments, and debt reduction. Our capital needs and capital procurement activities are coordinated to ensure that requirements with respect to earnings, liquidity, security and independence are taken into account and properly balanced.

In the year under review, Henkel paid a higher dividend for both ordinary and preferred shares compared to the previous year. Cash flows not required for capital expenditures, dividends and interest payments are used for improving our net financial position, allocations to pension funds, and financing acquisitions. We cover our short-term financing requirement primarily through 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 management is based on the financial ratios defined in our financial strategy (see page 65). Due to the international orientation of our businesses, a variety of regional statutory and regulatory provisions must be adhered to. The current status and amendments to these provisions are centrally monitored and any changes are taken into account in our capital management.

Our creditworthiness is regularly monitored by the two rating agencies, Standard & Poor's and Moody's. As in the previous year, we are rated "A flat"/"A–1" (Standard & Poor's) and "A2"/"P1" (Moody's). Hence, both Standard & Poor's and Moody's continue to rate Henkel as investment grade, which is 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 December 31, 2013.

As of December 31, 2013, our non-current borrowings amounted to 1,386 million euros. Included in this figure is the hybrid bond issued in November 2005 with a nominal value of 1.3 billion euros. Our current borrowings – i.e. those with maturities of less than twelve months – amounted to 1,230 million euros. They are comprised of the fixed-interest bond issued in March 2009 with a nominal value of 1 billion euros, and interest-bearing bank loans and credits.

We partly used the cash flow from operating activities to repay our senior bond that was due in June 2013. Overall, we have further improved our net financial position by a significant amount. The hybrid bond is treated as 50 percent equity by Standard & Poor's and – following a change in its valuation method – also by Moody's. This treatment benefits the rating-specific debt ratios of the Group (see table of key financial ratios).

Henkel's financial risk management activities are explained in the risks and opportunities report on pages 90 to 98. Further detailed information on our financial instruments can be found in the financial instruments report on pages 140 to 152 of the notes to the consolidated financial statements.

Key financial ratios

Operating debt coverage in the reporting period was well above the target of 50 percent due to our net cash position. Our interest coverage ratio, i.e. EBITDA divided by net interest expense, also improved further, aided by a higher EBITDA and lower interest expense. The once again improved equity ratio similarly reflects the high financial strength of the Group.

Key financial ratios

	2012	2013
Operating debt coverage [1,2] (Net income + Amortization and depreciation, impairment and write-ups + Interest element of pension obligations) / Net borrowings and pension obligations	> 500 %	**not calculable** [3]
Interest coverage ratio [2] (EBITDA / Interest result including interest element of pension obligations)	14.3	**23.9**
Equity ratio (Equity / Total assets)	48.7 %	**52.5 %**

[1] Hybrid bond included on 50 percent debt basis.
[2] Prior-year figure adjusted in application of IAS 19 revised (see notes on page 116).
[3] Figure cannot be calculated due to our positive net financial position.

Employees in focus
Photo left: All people managers at Henkel participated in one of around 350 workshops to discuss our new Leadership Principles. Here in Moscow, from left: Samvel Galustyan, Irina Eliseeva, Kurt Naxera, and Inna Frolovicheva.
Photo right: By the end of 2013, we had trained around 1,500 employees as "sustainability ambassadors" to promote the topic in talks with colleagues, customers, suppliers, and school children. Here, Norbert Koll, President, Henkel Consumer Goods Inc., in the USA, at the Copper Canyon Elementary School in Scottsdale, Arizona.

Employees by region in 2013

- 31 % Western Europe
- 20 % Eastern Europe
- 20 % Asia-Pacific
- 11 % North America
- 10 % Africa/Middle East
- 8 % Latin America

At December 31, 2013

Employees by business unit

- 52 % Adhesive Technologies
- 19 % Laundry & Home Care
- 16 % Beauty Care
- 13 % Functions

At December 31, 2013

Employees

At the end of 2013, Henkel employed around 46,850 people around the world (annual average: 46,800). As part of our strategy, we have relocated business proc esses to our shared service centers and consolidated various sites. As a result, the number of employees in our mature markets declined by around 1 percent, but increased in our emerging markets. Personnel expenses were 2,570 million euros.

High-performance teams are the basis for achieving our business success. By hiring employees of diverse nationalities, genders, and ages/professional experience, we ensure that our teams are optimally aligned to our global business. At the same time, our integrated global talent management process both enables us to develop the necessary skills of our employees at an early stage and enhances our attractiveness as an employer.

This attractiveness was again confirmed in 2013, with Henkel once more performing well in numerous employer rankings, and increasingly so in important emerging markets. For example, in China we were distinguished as a top employer in the "Universum Top 100 Ranking" for the first time. The renowned CRF Institute ranked Henkel again among the very best, awarding us the title of "Top Employer in Germany," as well as the highest possible rating for four out of the five subcategories assessed.

To address talented potential applicants, we focus strongly on online channels – in addition to our recruiting events around the world. We intensified this focus in 2013 with a strong global presence on the important social media channels, Facebook and LinkedIn. In total, we have so far connected with 250,000 "fans" worldwide through our career pages in the social media channels, and this figure is growing rapidly, particularly in the emerging markets. Our activities have helped to position Henkel even more effectively as an employer of choice, and to attract new talent.

The "Henkel Innovation Challenge," a successfully established innovation competition for students, is a case in point. The seventh edition of the competition kicked off under the motto "Create.Learn. Grow." All business units take part in the student competition in 30 countries on all five continents, using a mentoring program to actively assist the participants. To supplement this, students receive early assistance through electronically assisted learning ("eLearning") on the internet, covering topics such as marketing strategy, financial planning, and presentation techniques. The professional framework of the "Henkel Innovation Challenge" is generating a steady increase in the inflow of qualified job applications.

Attracting interested and qualified applicants to Henkel requires a professional approach to recruiting. We therefore introduced a new applicant management system in 2013 that efficiently organizes and simplifies the recruiting process. We are also expanding our use of video-based interviews and electronically supported selection procedures. These methods help us to accelerate the process while reducing travel expenses in the selection procedure. Furthermore, we ensure that our global talent management criteria are applied when hiring candidates.

In Germany, Henkel offers more than 20 apprenticeship professions, for which we again took on 167 apprentices in 2013. The new recruits also included 29 students who are taking part in our dual-track study program. Currently, 487 apprentices and students are learning a profession at Henkel. All our trainees successfully completed their final examination with the German Chamber of Commerce and Industry (IHK) or received their bachelor's degree.

To promote optimal career development for all employees, we significantly expanded our program of globally harmonized training schemes offered by the "Henkel Global Academy" in 2013. We added new strategic and operational content and introduced additional, innovative delivery methods – particularly in the area of virtual learning.

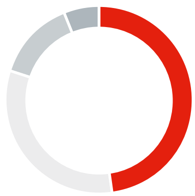
In addition to offering training programs that are available for all employees, we cooperate with internationally renowned business schools to further develop selected executives in the areas of management and leadership. To this end, we have designed challenging content that is specifically aligned to our strategy. High-performing, high-potential employees who have qualified for the "Executive Resource Program" once again attended selected courses at Harvard Business School in 2013. The new Leadership Principles that we introduced in 2013 were based on the project work of this group.

These Leadership Principles represent a globally uniform standard of what we expect of our people managers. The Leadership Principles are based on our vision and corporate values and contribute to the successful implementation of our Strategy 2016. In order to embed these principles worldwide, we have developed a series of interactive workshops. In around 350 workshops worldwide, a lively cross-functional exchange of experiences took place on the subject of leadership among the nearly 6,800 people managers at Henkel. Furthermore, we have consistently integrated our Leadership Principles into our performance evaluations.

An important part of our concept of leadership is pro-active planning for the next generation of executives. This is a particular challenge in the emerging markets, where rapid business growth creates especially high demand for qualified managers. To address this, we have developed a program in the Asia-Pacific region for the targeted development of selected new leadership talent. The program extends across functional areas and entails strategically relevant project assignments and work on case studies combined with training and coaching. The selected participants also receive support from our experienced executives.

Competitive remuneration is an important component of our performance culture. Our remuneration system rewards both individual achievement and corporate success. Our incentive systems play an important role in this regard. The incentives are aligned to the attainment of our medium-term financial targets. They inspire outstanding performance and vary according to individual levels of achievement. In 2012, we reviewed our global long-term incentive plan (LTI) for upper management and made adjustments in the LTI structure for the 2013 cycle. The adjustments were aimed at further strengthening the performance incentive and supporting the achievement of our financial goals. Our enhanced LTI scheme is also aligned to successfully addressing the growth in competition for management talent and keeping the turnover in executives with career potential low.

Employees by activity



- 48 % Production and engineering
- 32 % Marketing, selling and distribution
- 14 % Administration
- 6 % Research and development

At December 31, 2013

Employees by age group

- 18 % 16–29 years
- 34 % 30–39 years
- 29 % 40–49 years
- 19 % 50–65 years

At December 31, 2013

Employees [1]

(at December 31)	2009	%	2010	%	2011	%	2012	%	2013	%
Western Europe	16,250	33.0	16,250	34.0	15,350	32.5	14,600	31.3	**14,400**	**30.7**
Eastern Europe	8,800	17.8	8,600	18.0	8,850	18.7	9,150	19.7	**9,600**	**20.5**
Africa/Middle East	5,900	12.0	5,200	10.9	5,300	11.3	5,100	11.0	**4,800**	**10.2**
North America	5,700	11.6	5,450	11.4	5,250	11.1	5,200	11.1	**5,150**	**11.0**
Latin America	4,000	8.1	3,700	7.7	3,700	7.8	3,650	7.8	**3,750**	**8.0**
Asia-Pacific	8,600	17.5	8,650	18.0	8,800	18.6	8,900	19.1	**9,150**	**19.6**
Total	**49,250**	**100.0**	**47,850**	**100.0**	**47,250**	**100.0**	**46,600**	**100.0**	**46,850**	**100.0**

[1] Basis: permanent employees excluding apprentices. Figures rounded.

Around 32 %
of our managers
are women.

Diversity in our teams plays a key role in Henkel's success, and drives our innovations and creative business processes: with over 120 nationalities, diverse skills, abilities, educational backgrounds, and experiences. We believe the global nature of our business should also be reflected in our teams. Thus the emphasis on assignments abroad remains an important component of personnel development at Henkel. Our employees gain important experience in new working environments while intercultural understanding is strengthened.

This focus on mobility at an early stage in an employee's career also remains an important aspect in career planning for women. We remain committed to our goal, within the framework of the voluntary declaration of commitment undertaken by all DAX 30 companies, of increasing the share of women in management positions by one to two percentage points per year. In 2013, Henkel raised this figure to around 32 percent.

Furthermore, we are taking steps to improve the flexibility of working hours worldwide, and we support career paths for women. This was acknowledged, for example, in the Africa/Middle East region, where in 2013 we were named "Most Women-Friendly Employer in Middle East." In South Korea, Henkel was distinguished as "2013 Great Place to Work for Korean Women."

Above all, successful diversity management requires the active inclusion of all employees with their widely varied backgrounds and experiences. At Henkel this is based on a cooperative and appreciative management style. To promote this, we introduced a new training program in 2013 for all managers, which is designed to raise awareness of potential prejudices that may affect management behavior.

In addition, our global Diversity Weeks provided opportunities for an in-depth experience with diversity and sharpened awareness in this area. 100 different global, regional, and local events and activities took place in spring 2013, including discussion panels with senior management and one-day job rotations.

An integral part of our understanding of responsible behavior is our social engagement – also referred to as corporate citizenship. It encompasses support for volunteer work by our employees and retirees, social engagement by the corporation or the individual business units, as well as international disaster relief. This year again, Henkel responded quickly and unbureaucratically to provide aid in the wake of a number of natural catastrophes. For example, we sent immediate financial assistance and product donations in early summer after the floods in Germany, Austria, and the Czech Republic. Later, following the disastrous effects of Typhoon Haiyan in the Philippines in August, Henkel provided support to those affected, including Henkel employees and their families.

The social engagement of our employees is a significant success factor in the area of international corporate citizenship. The successful implementation of our sustainability strategy is also built on the involvement of all our employees. The issue of sustainability in 2013 was further addressed in our internal communications. Activities included internal rounds of talks in which senior management and employees at all levels had the opportunity to discuss sustainability in depth. The faithful integration of this topic within existing training and development programs leads to the firm establishment of the concept of sustainability in the corporation.

We also promote the involvement of our employees through our "sustainability ambassadors" program. Our ambassadors promote sustainability among colleagues, suppliers, and customers. As sustainability ambassadors, Henkel employees also inspire interest and awareness for sustainable behavior in everyday life among school children. By the end of 2013, around 1,500 employees had been trained as sustainability ambassadors.

Procurement

We use externally sourced materials (raw materials, packaging and purchased goods) and services to produce our finished products. These items all fall under the general category of **direct materials**. Examples include washing-active substances (surfactants), adhesive components, cardboard boxes and external filling services.

Aside from supply and demand, the prices of direct materials are mainly determined by the prices of the input materials used to manufacture them. As in the previous years, 2013 was characterized by fluctuating raw material prices. The situation differed sharply by both region and type of input material. The average crude oil price was lower than in the prior year, but severe fluctuations occurred over the course of the year. The price for palm kernel oil rose steadily from one quarter to the next. Prices declined for butadiene until the third quarter, when they started to rise again. Ethylene prices rose in Asia while remaining below the prior-year level in Europe and the USA. Overall, prices for direct materials in 2013 remained unchanged year on year.

Direct material expenditures were 7.3 billion euros in the year under review, 0.2 billion euros less than in the previous year. The reduction is particularly attributable to foreign exchange effects, savings from cost reduction measures and improvements in production and supply chain efficiency. Additionally, selective price increases enabled us to increase our adjusted [1] gross margin.

Our five most important groups of raw materials within the direct materials category are raw materials for use in hotmelt adhesives, washing-active substances (surfactants), raw materials for polyurethane-based adhesives, inorganic raw materials and water- and acrylic-based adhesive raw materials. These account for around 37 percent of our total direct material expenditures. Our five largest suppliers account for around 14 percent of our direct materials spend.

Purchases made in the general category of **indirect materials and services** are not directly used in the production of our finished products. Examples include maintenance materials, and logistics, marketing and IT services. We were able to more than compensate for the slight increases in gross prices in these areas in 2013 through our global procurement strategy and structural cost reduction measures. At 4.7 billion euros, expenditure on indirect materials and services for 2013 was up on the prior-year level.

In order to improve efficiency and secure material supplies, we continuously optimize our value chain while ensuring that we maintain our level of quality. In addition to negotiation of new, competitive contract terms, our ongoing initiative to lower total procurement expenses is a major factor in the success of our purchasing strategy. Together with the three business units, Purchasing works continuously on reducing product complexity, optimizing the raw materials mix and further standardizing packaging and raw materials. This gives us stronger negotiating positions and greater flexibility to further consolidate our supplier base. For long-term business relationships, we choose suppliers who offer the greatest potential in terms of innovation and optimization of manufacturing costs and logistics processes, while limiting the risk of supply shortages. We agree on individual targets with our strategic suppliers. Last year, we succeeded in further reducing the number of suppliers by around 8 percent.

We were able to increase the efficiency of our purchasing activities by further standardizing, automating and centralizing our procurement processes. In addition to making greater use of eSourcing tools to support our purchasing processes, we have also already pooled large portions of our administrative purchasing activities – such as order processing, price data maintenance, and reporting activities – within our shared service centers. In 2013, we also set the groundwork for our new “Sourcing@Best” initiative, enabling central purchasing to consolidate its global strategic procurement operations into eight global purchasing centers in the future.

Given the uncertainties with respect to material price changes and supply shortages in procurement markets, risk management is an important part of our purchasing strategy. Emphasis is on reducing price and supply risks while maintaining uniformly high quality. As part of our active price management approach, we employ strategies to safeguard prices over the long term, both by means of contracts and, when appropriate and possible, financial hedging instruments. In order to minimize the risk of supplier default, we stipulate supplier default clauses and perform detailed risk assessments of suppliers to determine their financial stability. With the aid of an external, indepen-

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

Material expenditures by business unit

- 53 % Adhesive Technologies
- 30 % Laundry & Home Care
- 17 % Beauty Care

Material expenditures by type

- 64 % Raw materials
- 20 % Packaging
- 16 % Purchased goods and services

dent financial services provider, we continuously monitor important suppliers whose financial situation is seen as critical. If a high risk of supplier default is identified, we systematically prepare back-up plans in order to ensure uninterrupted supply.

We expect our suppliers and business partners to conduct themselves in a manner consistent 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, in selecting and developing our suppliers and business partners, we take into account their performance in terms 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 supplier code, and the basis for our multi-stage Responsible Supply Chain Process. The objective of this process is to ensure supplier compliance with these standards and to improve the sustainability standards in our supply chain in harness with our strategic suppliers. A global training program ensures that the requirements regarding the sustainability profile of our suppliers are understood and properly applied by our employees.

Systematic expansion of our supplier audit programs will be a major focus in this regard in the coming years. We plan not only to increase the number of supplier audits but also to improve their transparency and efficiency. In collaboration with five other businesses from the chemical industry under the initiative “Together for Sustainability,” Henkel has largely standardized the procedure for evaluating sustainability and the auditing criteria for the – in many cases – common suppliers, and established an online training program for suppliers. The results of audits and assessments are shared among the members of the initiative.

Production

We further optimized our production sites in fiscal 2013, with Henkel manufacturing products to a total weight of around 7.7 million metric tons at 164 sites in 54 countries. 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 entering new markets or when volumes are still small. We currently purchase around 10 percent in additional production tonnage from toll manufacturers each year.

Number of production sites

	2012	2013
Laundry & Home Care	28	27
Beauty Care	8	8
Adhesive Technologies	135	129
Total	**171**	**164**

In the **Laundry & Home Care** business unit, we further reduced the number of production sites worldwide from 28 to 27 in the year under review. Our plant in Düsseldorf continues to be the largest production site for this business unit. Here we predominantly manufacture powdered and liquid detergents, fabric softeners, liquid cleaning products and dishwasher tabs. Concentrating our production on fewer, more efficient factories close to our customers has enabled us to continuously improve our performance.

By the end of 2013, Group headquarters and 24 other sites had been certified under the new standard for energy management, ISO 50001. This year, in addition, we introduced a digital energy management system worldwide. Within a span of just six months, nearly all of our locations worldwide were connected to a real-time resource consumption monitoring system.

Building on an international study on optimizing logistics flows performed in 2012, we initiated various related projects in 2013. One of these involves our investment of 35 million euros for the construction of a new, automated warehouse at our Düsseldorf site. The new distribution center will be Henkel's largest warehouse with a capacity of 90,000 pallets and will replace four regional warehouses in Germany. The new warehouse concept is part of a worldwide program to achieve Henkel's sustainability targets in the area of logistics. Through automation of the warehouse and a direct connection to production via conveyors, 1.5 million forklift movements and 20 percent of the current transportation distances in Germany will be saved.

In the **Beauty Care** business unit, we further optimized the environmental footprint of our production processes based on our production strategy. In Western Europe, we completed the alignment of our production sites based on dedicated product technologies, and merged common functions together. We consolidated our sites in the Africa/Middle East region. To strengthen supply chain operations in Eastern Europe, we acquired a production company with a site in Russia and now have a globally efficient production network across eight sites. This acquisition supports volume growth and further development of the Eastern Europe region. We also made selected investments in capacity expansion in the emerging markets outside Europe, again to support and expand the organic sales growth planned for those regions.

Our program "Total Productive Management Plus" progressed at all of our production sites worldwide, continuously improving efficiency and productivity through process optimization and further reducing energy consumption and waste and wastewater volumes.

The **Adhesive Technologies** business unit has a global production network of 129 sites serving the growing demand for the solutions we provide and ensuring efficient delivery to market. By consolidating sites primarily in mature markets, we were able to lower the overall number of sites from 135 in the previous year to 129 in 2013.

We expanded production capacity in the emerging markets in the reporting year in order to ensure market supply close to the customer. In Shanghai, China, for example, Henkel's adhesives factory – the largest in the world – commenced operations. It pools together adhesive production from around the greater Shanghai area and supplies, amongst others, enterprises in the automotive industry and various consumer goods sectors. Employing a variety of production technologies in one location enables additional economies of scale through the joint use of infrastructure. The concept is to serve as the basis for site development in other regions.

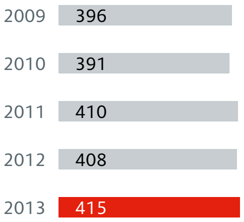
The pooling of production capacity drives ongoing optimization of our manufacturing costs. Continuous improvement of our production processes also plays an important role in increasing our efficiency. In the reporting year we launched an initiative with the goal of standardizing our processes and workflows in the production domain. In addition to defining standards, lean training and workshops at our production sites are important components of this initiative. All production employees participate in these programs, thus firmly anchoring the continuous improvement process in the organization.

As an important aspect in our promise of quality, our optimization efforts in all three business units aim to reduce the environmental footprint of our production activities. We focus in particular on cutting energy consumption, thereby contributing to climate protection, reducing material consumption and waste volume, and limiting water usage and wastewater pollution. New warehouse concepts and the production of packaging materials directly on-site where filling takes place reduce transport mileage and thus also contribute to climate protection.

Overall, our global programs in 2013 resulted in 59 percent of our sites reducing their energy consumption, 65 percent decreasing their water usage, and 50 percent lowering their waste footprint.

R&D expenditures[1]

in million euros



[1] Includes restructuring charges of: 13 million euros (2009), 8 million euros (2010), 14 million euros (2011), 2 million euros (2012), 1 million euros (2013).

R&D expenditures by business unit

- 61 % Adhesive Technologies
- 24 % Laundry & Home Care
- 15 % Beauty Care

Keeping our "Factor 3" goal in mind for the year 2030, we have set concrete interim targets for our production sites that we intend to reach by the end of 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

By the end of 2013, we had achieved significant progress in all areas and had already reached our 2015 targets in specific areas, such as our 15 percent improvement in energy efficiency and 50 percent improvement in occupational health and safety.

For further details on our sustainability targets, please see pages 51 to 53 and our Sustainability Report on our website at www.henkel.com/sustainability

Our standards for safety, health and the environment, and our social standards, apply to all our sites worldwide. Using a clearly defined process of communication, training and audits, we ensure compliance with these standards, especially at the production level.

We have the environmental management systems at our sites externally certified wherever this is recognized by our partners in the respective markets. By the end of 2013, around 95 percent of our production volume came from sites certified to ISO 14001, the internationally recognized standard for environmental management systems.

Research and development

Expenditures by the Henkel Group for research and development in the reporting period amounted to 415 million euros (adjusted for restructuring expenses: 414 million euros) compared to 408 million euros (adjusted: 406 million euros) in 2012. As a percentage of sales, we spent 2.6 percent (adjusted: 2.6 percent) on research and development (2012: 2.5 percent, adjusted: 2.6 percent). Successful implementation of our Open Innovation strategy, project outsourcing, and the relocation of resources in the direction of emerging markets led to improved efficiency and demonstrated our ongoing focus on innovation. Furthermore, we enhanced our innovation capability in the emerging markets by opening four research and development centers – in India, South Africa, South Korea and the United Arab Emirates – and by significantly expanding our R&D site in Russia.

A substantial part of our research and development activity takes place in the areas of polymer and interface chemistry, biotechnology, materials science, surface treatment, process technology and new packaging. These activities are important for all Henkel business units. In 2013, personnel expenses accounted for 60 percent of total R&D spending.

Our research and development costs were fully expensed; no development costs were capitalized in accordance with International Financial Reporting Standards (IFRS).

On an annual average, around 2,600 employees worked in research and development (2012: 2,650). This corresponds to 5.6 percent of the total workforce. The success of our R&D activities is based on the talents, skills and capabilities of our highly qualified employees. Our teams are comprised of natural scientists – predominantly chemists – as well as material scientists, engineers and technicians.

Major Henkel R&D sites around the world

Key R&D figures

	2009	2010	2011	2012	2013
R&D expenditures[1] (million euros)	383	383	396	406	**414**
R&D expenditures[1] (in % of sales)	2.8	2.5	2.5	2.6	**2.6**
Employees[2] (annual average)	2,750	2,650	2,650	2,650	**2,600**

[1] Adjusted for restructuring charges.
[2] Figures rounded.

Open innovation
Our innovations come from both internal and external sources. Therefore, the concept of Open Innovation continues to hold great significance for us. Hence, we have intensified our efforts to involve external partners such as universities, research institutes and suppliers in many of our major projects.

The following examples demonstrate the success achieved by our Open Innovation concept:

- We presented our raw materials supplier Evonik with the "Best Innovation Contributor Award 2013" for the development of a new, highly efficient silicone compound that creates a uniquely soft feel for laundry after-treatments. The patented ingredient enables a resource-efficient formulation which provides significantly better performance. It also improves the cohesion of fragrance to the fabric.
- We presented our raw materials supplier BASF with the "Best Innovation Contributor Award 2013" for its innovative contribution to a new type of anti-wrinkle ingredient with natural origins. This new organic ingredient comes from the bark of the South American quassia tree and visibly reduces wrinkles as evidenced by multiple in-vitro and in-vivo studies.
- Cooperation with Professor Markus Buehler's Laboratory for Atomistic and Molecular Mechanics (LAMM) at the Massachusetts Institute of Technology (MIT) in Cambridge, Massachusetts (USA), enables us to perform computer modeling for new types of polymer structures. With the aid of a special computer program, we can conduct virtual experiments with polymers that would be very difficult and time-consuming to perform in the laboratory. This allows us to identify new polymer forms for specific properties.

Worldwide, growth and quality of life need to be decoupled from resource consumption and emissions. Our contribution lies in the development of innovative products and processes that consume less resources while offering the same or better performance. It is therefore both our duty and our desire to ensure that all new products contribute to sustainable development in at least one of our six defined focal areas. These are systematically integrated within our innovation process: Our researchers must demonstrate the specific advantages of their project in regard to product performance and added value for our customers, resource efficiency, and social progress. We therefore focus our R&D efforts on innovations that combine product performance and quality with social and environmental responsibility.

Life cycle analyses of our key product categories and our many years of experience in the area 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 effects occur and where appropriate improvement measures might be applied. One key tool in this respect is our "Henkel Sustainability#Master®." This evaluation system centers around a matrix based on the individual steps in our value chains and on our six focal areas. It shows which areas are most relevant from a sustainability perspective, and allows a transparent and quantifiable comparison to be made between two products or processes.

Our scientists again made valuable contributions to the company's success through their innovations in 2013. A selection of particularly outstanding research projects is provided in the examples below:

Laundry & Home Care

- Worldwide launch of a new low-temperature formula with significantly improved performance, especially at 20 and 30 degrees Celsius. The new and completely reformulated enzyme system plays a key role in substantially reducing energy and material consumption.
- The Perwoll Aktiv & Sport brand benefited from the introduction of our unique, patented Re-Fresh technology. The fragrance anchor molecules developed specifically for this product in the Henkel Fragrance Center release perfume substances as humidity increases, while simultaneously absorbing any unpleasant odors. The formula, which uses additional ingredients designed for functional textiles, provides exceptionally long-lasting freshness, particularly during physical activity.
- The launch of gel tabs on the European market as a completely new dosage form for automatic dishwashing products. The innovative multifunctional technology exhibits powerful cleaning, outstanding shine, and easier handling. Its decisive features are superior solubility and the quick release of active substances, which are particularly effective for short wash cycles and low temperatures. A completely new manufacturing technology played a key role in this development. Its contribution to sustainability is especially apparent in the reduction of material consumption achieved through optimized packaging.

Beauty Care

- The innovative formulation platform for oxidative hair colorants launched under the Igora brand delivers visibly superior color properties through "high-definition" pigment blending for salon use. For the Branded Consumer Goods business, the oxidative hair colorant Color Ultimate was developed in conjunction with a leading aerosol filler. The product is very easy to use – there is no separate mixing step – and provides an ecological advantage due to its multi-application dispenser.
- Further development of the hair care platforms for Bonacure and Gliss Kur through Keratin-Primer technology, which strengthens hair fibers from within. The high efficacy of this new conditioning technology enables a reduction of conventional conditioning ingredients in the formulations, thus improving the environmental footprint. Silicone lamination technology was used for the first time under the Syoss brand. This technology seals the surface of the hair, providing optimal shine.
- Development of new formulation platforms for especially skin-friendly body wash gels that were introduced to the market under the Fa and Dial brands in Europe and North America. Smart application of conditioning polymers means surfactant raw materials are used with greater efficiency, resulting in a reduced carbon dioxide footprint and further ecological benefits.

Adhesive Technologies

- Global launch of a new two-stage process for pretreating multi-metal car bodies prior to painting. Overall, both the quality and ecologi-

Fritz Henkel Award for Innovation 2013

www.persil.de

www.syoss.de

www.henkel.com/electronics

cal impact of this pretreatment process have been improved thanks to a reduction in the chemical and energy input. At the same time, a much smaller quantity of phosphate sludge is produced, which positively impacts the waste footprint.

- New, solvent-free assembly adhesives for craftsmen and consumers with improved performance capabilities. These products are replacing solvent-based adhesives as part of our sustainability strategy.
- Launch of a new generation of polyurethane- and acrylate-based adhesives for bonding mobile devices. New application devices developed specifically for these products now allow customers to use these adhesives more efficiently.

Fritz Henkel Award for Innovation

Each year we select a number of outstanding developments for our Fritz Henkel Award for Innovation. In 2013, the innovation award went to three international, interdisciplinary project teams for the realization and successful commercialization of the following concepts:

- Persil Duo-Caps combines the innovative brightness formula with a powerful active stain remover in a water-soluble gel capsule featuring our unique dual-chamber technology. The specially formulated gels in the two chambers are double-concentrated, are separated from each other by a water-soluble film, and only combine their strength when washing starts. Persil Duo-Caps achieves full washing performance even at low temperatures for perfectly sparkling clean and bright laundry. The pre-portioned doses are easy to use and prevent overdosage. Packaging material is reduced by as much as 70 percent per load of washing. As a result, Persil Duo-Caps contributes to resource conservation and reduces the product’s CO_2 footprint by around 15 percent.
- Syoss Oleo Intense is the new cross-category hair colorant and care line for a new dimension in performance and care. The oil color technology delivers unique color performance with extraordinary color intensity, excellent color retention, and 100 percent coverage of grays – without ammonia. The nourishing oils also give hair exceptional shine and smoothness, satisfying customers’ demands for both performance and care. The Hair Care product offers the user everyday smoothness and shine through its thermo-active oil formula.
- Halogen-free underfill Loctite UF3808 provides exceptional impact and shock protection for electronic components. It cures quickly at low temperatures, reducing the stress on other components. The material’s mechanical properties ensure protection for solder joints, even under changing temperatures.

We hold more than 7,800 patents to protect our technologies around the world. Close to 4,800 patents are currently pending. And we have registered nearly 1,600 design patents to protect our designs.

Further information on our research and development activities can be found on our website at 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 units to the requirements of each specific audience and target group.

In the **Laundry & Home Care** business unit, the new business model introduced in 2011 has proven successful. It aligns our marketing activities even more closely to our markets and customers. Global management of our international brands plays an important role. It enables us to adopt more efficient decision-making processes, accelerate the market launch and further commercialization of our innovations, and further advance the use of new and important media. At the same time, close cooperation between our global marketing unit and local organizational units ensures that local market conditions and consumer habits are taken into account.

In engaging with consumers, we place increasing emphasis on digital marketing in addition to traditional advertising. Integrated digital campaigns, which include social media, are developed centrally and rolled out globally. We plan our distribution activities on a country-specific basis, while coordinating them internationally. At the same time, we have harmonized processes worldwide and improved the transfer of knowledge, experience and applications within the organization. Our relationships with retail customers were further strengthened in 2013 through our continuing development of shopper marketing. The latest results of customer satisfaction studies confirm our leading role in developing and leveraging category potential.

In the **Beauty Care** business unit, we develop marketing and sales strategies for both our Branded Consumer Goods and our Hair Salon businesses on a global scale, while implementing them locally. In the Branded Consumer Goods business, we aim for above-average growth with our top customers. In its first year since opening, the "Beauty Care Lighthouse" in Düsseldorf has evolved into a center of innovation and customer focus where customers can experience Beauty Care's expertise first-hand and interactively and digitally immerse themselves in the world of innovation. In addition to traditional advertising and point-of-sale activities, digital marketing is gaining greater significance in our interaction with consumers. We are focusing, in particular, on developing direct exchange through social media.

In the Hair Salon business, we also rely on strong partnerships with our customers. As an additional service, our globally established Schwarzkopf academies offer state-of-the-art specialist seminars and ongoing training programs with the focus increasingly on the hair salon as an enterprise. Engagement and ongoing dialog with our customers in the Hair Salon business is ensured through the activities of our sales force who support the salons at the local level with, for example, product demonstrations and technical advice.

Closeness to customers and consumers in both the Branded Consumer Goods and Hair Salon businesses ensures the continued ability of the Beauty Care business unit to successfully bring innovation to the market in the future.

Marketing in our consumer goods businesses is focused on the needs of the consumer. Our marketing organization initiates innovation processes and uses knowledge gained from market research and observation. Our marketing teams develop and execute media strategies and advertising formats that specifically address consumers. To support our strong brands and continue the successful marketing of our innovations, we manage our marketing activities and investments using clear priorities set according to category and region.

Our primary direct customer group is the grocery retail trade with distribution channels in the form of supermarkets, large-scale mass merchandisers/hypermarkets and discount stores. In Europe, drug stores are also important. Wholesalers and distributors continue to account for a large proportion of our sales in markets outside Europe and North America. Our sales unit offers a full range of skills and services to support our trade customers.

The business unit **Adhesive Technologies** provides solutions worldwide for very different and specialized market sectors. Our broadly diversified portfolio serves industrial customers as well as consumers, craftsmen, and customers in the building industry. In the industrial sector, our businesses are Packaging and Consumer Goods Adhesives, Transport and Metal, General Industry, and Electronics.

With our 6,500 in-house specialists, we are able to maintain long-term contact with our customers and have developed an in-depth understanding of their various areas of application. This forms the basis for the tailor-made solutions we provide for the specific needs of around 130,000 customers. Through close, long-term partnerships with industrial customers and strategic cooperation with equipment manufacturers, we develop targeted new applications. We generally rely on our own sales personnel as the channel through which we address our customers. Our direct customers are industrial clients and retail companies. Our most important customers are served by our key account management teams.

Our global presence enables us to provide technical services to customers worldwide as well as a broad range of options for in-depth product training on site. At our recently opened research and development center in Pune, India, and our technology center in Shanghai, China, we are able to carry out tests under practical conditions covering the broad spectrum of potential applications for our technologies. Our technology center in Shanghai focuses on the needs of display manufacturers.

We develop our marketing strategy at both the global and regional level. The measures derived from our planning are implemented locally. In our brand strategy we consistently rely on Henkel as our manufacturer brand to further strengthen the five brands of the global technology clusters in the industrial markets and our four brand platforms in the consumer business.

The growing digitization of media channels presents numerous opportunities for Adhesive Technologies. In addition to expanding and further professionalizing the information we provide for products and applications, we use digital media for close interaction with our target groups. We are focusing particularly on eCommerce, where we are striving to integrate our online and offline activities, and to expand sales activities to promote our multi-channel strategy.

For Henkel, the importance of sustainability has grown significantly in our relationships with customers and consumers. Our customers increasingly expect their suppliers to ensure 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, as well as more detailed information provided in the new media, such as electronic newspapers and online platforms, and at events.

We intend to increase our involvement in the development of appropriate measurement and assessment methods in order to facilitate effective, credible communication of our contributions to sustainability. To this end, we have developed a variety of tools, which are integrated within our “Henkel Sustainability#Master®.” This evaluation system centers around a matrix based on the individual steps in our value chains and on our six focal areas. It shows which areas are most relevant from a sustainability perspective, and allows a transparent and quantifiable comparison to be made between two products or processes.

We also participate in related projects and working groups, such as the Consumer Goods Forum, the Sustainability Consortium, the World Business Council for Sustainable Development, and, through the A.I.S.E. (the International Association for Soaps, Detergents and Maintenance Products), in the Environmental Footprint Pilot Project of the European Commission.

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

Laundry & Home Care

Highlights

Sales growth	Adjusted[1] operating profit	Adjusted[1] return on sales
+5.7 % organic sales growth	**714 million euros** adjusted[1] operating profit (EBIT): up 8.5 percent	**15.6 %** adjusted[1] return on sales (EBIT): up 1.1 percentage points

Persil High Suds Gel

The powerful liquid detergent Persil High Suds Gel brings the cleaning power of Persil to a number of countries in the Middle East and North Africa. Its formula was especially adapted to the regional requirements for washing by hand: powerful suds, effective stain removal, and a fresh, long-lasting scent.

Somat / Pril Gel Tabs

The new Somat Gel Tabs – sold as Pril Gel Caps in Italy since July 2013 – are the first tabs made by Henkel completely from gel. They dissolve quickly in the dishwasher and completely remove even the toughest residue. The result: a brilliant shine for dishes.

www.somat.de

Vernel Aroma Therapy

Essential oils and the pure fragrances of herbs and flowers have been well known for their positive effects on body and soul for millennia. The unique formulas of Vernel Aroma Therapy combine long-lasting, incomparable softness with enticing fragrances.

www.vernel.de

Key financials *

in million euros	2012	2013	+/–
Sales	4,556	4,580	0.5 %
Proportion of Henkel sales	28 %	28 %	–
Operating profit (EBIT)	621	682	9.7 %
Adjusted operating profit (EBIT)	659	714	8.5 %
Return on sales (EBIT)	13.6 %	14.9 %	1.3 pp
Adjusted return on sales (EBIT)	14.5 %	15.6 %	1.1 pp
Return on capital employed (ROCE)	25.8 %	29.4 %	3.6 pp
Economic value added (EVA®)	393	507	29.3 %

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

Sales development *

in percent	2013
Change versus previous year	0.5
Foreign exchange	– 5.2
Adjusted for foreign exchange	5.7
Acquisitions/divestments	0.0
Organic	5.7
of which price	0.9
of which volume	4.8

* 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

In 2013, the relevant world market for laundry and home care was generally characterized by market decline, and further intensified price and promotional competition.

Despite these negative market developments and intense competition, our growth significantly outpaced the relevant market again in 2013. As a result, we were able to strengthen our leadership position and further expand our share in our relevant markets. This positive performance is attributable in particular to the successful introduction of our innovations, and the sustained success of our strong brands.

Trends in the mature markets were negative in both Western Europe and North America, influenced by the persistently difficult economic conditions and aggressive price and promotional activities. Throughout Western Europe, market trends varied significantly, with the markets in Southern Europe – these being most affected by high unemployment and consumer restraint as a result of the debt crisis – experiencing sharp declines. In contrast, the French market showed slight gains and the German market held stable. In this difficult environment, the Laundry & Home Care business unit was able to significantly increase its market share and expand its market leadership. In the North America region, despite a declining and intensely competitive market, market share was maintained at the level of the previous year.

Market growth in Eastern Europe was in the low single-digit range overall. The dynamic growth of the previous year weakened, and the market generally declined in the second half of the year, mainly due to an intensely competitive market environment in Russia. Despite ongoing political unrest, the Africa/Middle East region recorded strong market growth, although not at the level of the previous year. Our relevant markets in Latin America showed solid growth with rates in the mid-single digits. Henkel also posted stronger growth in the emerging markets than the relevant market as a whole and achieved gains in market share.

Business activity and strategy

The Laundry & Home Care business unit is globally active in the laundry and home care Branded Consumer Goods business. The Laundry Care business includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers, and other fabric care products. The product portfolio of our Home Care business encompasses hand and automatic dishwashing products, cleaners for bathroom and WC applications, and household, glass and specialty cleaners. We also offer air fresheners and insecticides for household applications in selected regions.

Our aim is to continue generating profitable growth through 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 from emerging markets, particularly Eastern Europe, Africa/Middle East and Latin America. We intend to leverage the dynamics of these regions in order to accelerate the overall growth of our Laundry & Home Care business unit. Our goal is to further increase our market share in the emerging markets, and raise profitability to the higher level of the mature markets.

Strong brands and innovations that offer added value for consumers provide the basis for our strategy of profitable growth. Successful product launches again contributed substantially to our positive business performance in the year under review. In 2013, we managed to increase our innovation rate[1] to 45 percent.

Through central and efficient management of our innovation process and 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 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 above-average growth with our most important brands and market segments.

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

Top brands

Persil
Purex
Pril

45 %
innovation rate.

Sales

in million euros

+5.7 %

organic sales growth.

In 2013, we generated 85 percent of our sales with our top 10 brand clusters. A brand cluster comprises individual global and local brands that share a common brand positioning internationally. By adopting this approach, we are able to generate synergies in our marketing mix.

Sales and profits

The Laundry & Home Care business unit recorded strong organic sales growth and posted an excellent performance in adjusted return on sales in the reporting period, thus continuing its profitable growth trend of the previous years. Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), we succeeded in increasing sales by 5.7 percent. Adjusted return on sales reached 15.6 percent for the full year for the first time, with an increase of 1.1 percent year on year. Organic sales growth was significantly above our relevant markets, which recorded slightly negative performance overall. Due to the competitive intensity of the market, organic growth was mainly driven by volume.

In the following, we comment on our organic sales performance in the regions.

The strong organic sales growth was generated exclusively by the emerging markets. Sales in emerging markets improved by double digits overall. Eastern Europe showed a very strong sales increase, mainly driven by double-digit growth in Turkey. We once again achieved a double-digit increase in sales in the Africa/Middle East region, despite persistent political and social unrest. We posted strong sales expansion in Latin America, where we benefited mainly from very strong growth in Mexico. In Asia-Pacific we posted a double-digit sales increase. Our presence in this region is exclusively in South Korea.

Sales in the mature markets declined slightly in a difficult economic environment. In Western Europe, strong performance in France and solid growth in Germany offset sales declines in Southern Europe. In North America, sales in an intensely competitive and still declining market were slightly below the level of the prior year.

At 9.7 percent, growth in operating profit (EBIT) was nearly in the double-digit range thanks to positive business performance in comparison to the previous year. Adjusted operating profit increased by 8.5 percent while adjusted return on sales improved by 1.1 percentage points to an all-time high of 15.6 percent for the full year. Ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to offset the effects of continued strong promotional and price competition, and to maintain our gross margin at the prior-year level. We also benefited from a slight decrease in overall prices for direct materials. Ongoing efforts to optimize our cost structures additionally contributed to the increase in profitability.

Net working capital was –8.0 percent of sales, and therefore improved further compared to the already very low level of the previous year. We posted a substantial improvement in return on capital employed (ROCE) of 3.6 percentage points to 29.4 percent. This increase was mainly due to the improvement in operating profit. Economic value added (EVA®) reached 507 million euros, increasing by 114 million euros compared to the prior year.

Business areas

In the following, we comment on the organic sales performance of our business areas.

Laundry Care

The Laundry Care business posted a solid sales performance in 2013, with our core category of heavy-duty detergents generating the greatest growth momentum.

Through the ongoing success of our pre-dosed liquid detergent capsules, introduced in 2012, and their roll-out in Western Europe, we generated particularly dynamic growth in the strategically important category of premium heavy-duty detergents. The dual-chamber technology of Persil Duo-Caps combines the Persil brightness formula with powerful active stain remover, each in a separate chamber. We have also introduced new detergent variants under our Persil brand that combine proven Persil performance with a lasting lavender scent.

We successfully launched liquid detergent capsules with single-chamber technology in several Eastern European markets. The products target price-conscious customers in the value-for-money segment. The specialty detergents category posted profitable growth, driven by new Perwoll variants in Western Europe. Additional positive contributions were made by the relaunch of our Vernel Aroma Therapy product line and the introduction of new Silan Pure & Natural fabric softener variants in Eastern Europe.

Home Care

The Home Care business likewise recorded a very strong sales performance in 2013. Our hand-dishwashing category showed dynamic growth again in 2013, driven mainly by the successful positioning of our core brand Pril in the Africa/Middle East region. The successful performance of our automatic dishwashing products was supported in the second half of the year by the launch in a number of European markets of our innovative gel capsules under the Pril and Somat brands.

The success of our WC products is primarily attributable to the Bref Power Aktiv WC rim block, known in Germany under the WC Frisch brand. Performance was also driven by new variants, and by tapping into new sales markets in Mexico and the USA.

In the air freshener category, important in North America, we successfully introduced the newly designed cone-shaped variants under the Renuzit brand. Growth in South Korea was stimulated by the launch of Home Mat Compact Alpha, a highly efficient insecticide system with an innovative design.

Capital expenditures

We focused our investment activity on expanding production capacity for innovative products, and on optimizing and streamlining our production and distribution processes. This included the construction of an automated high-bay warehouse in Düsseldorf as the central distribution center for Germany. We made further investments in plant safety. Capital expenditures for property, plant and equipment totaled 153 million euros compared to 146 million euros in the previous year.

Beauty Care

Highlights

Sales growth

+3.0 %

organic sales growth

Adjusted[1] operating profit

525 million euros

adjusted[1] operating profit (EBIT):
up 2.1 percent

Adjusted[1] return on sales

15.0 %

adjusted[1] return on sales (EBIT):
up 0.5 percentage points

Gliss Kur Ultimate Oil Elixir

The unique formula of Gliss Kur Ultimate Oil Elixir with nourishing oil elixir and golden particles repairs dry, damaged hair deep down, and strengthens hair structure. It offers a powerful new way to repair hair and up to 95 percent less breakage.

www.glisskur.com

Dial Coconut Water

The extraordinary body wash formula of Dial Coconut Water featuring coconut water and bamboo leaf extract moisturizes with every shower for skin that feels clean, fresh and soft.

www.dialsoap.com

Syoss Oleo Intense

The first non-drip oil-in-cream formula from Syoss Oleo Intense provides supreme color intensity and up to 90 percent more shine – without ammonia, to optimize scalp comfort. Syoss Oleo Intense leaves hair softer, healthy-looking, and strong.

www.syoss.de

Key financials *

in million euros	2012	2013	+/–
Sales	3,542	3,510	– 0.9 %
Proportion of Henkel sales	21 %	21 %	–
Operating profit (EBIT)	483	474	– 1.9 %
Adjusted operating profit (EBIT)	514	525	2.1 %
Return on sales (EBIT)	13.6 %	13.5 %	– 0.1 pp
Adjusted return on sales (EBIT)	14.5 %	15.0 %	0.5 pp
Return on capital employed (ROCE)	23.2 %	23.6 %	0.4 pp
Economic value added (EVA®)	285	323	13.5 %

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

Sales development *

in percent	2013
Change versus previous year	– 0.9
Foreign exchange	– 3.7
Adjusted for foreign exchange	2.8
Acquisitions / divestments	– 0.2
Organic	3.0
of which price	0.5
of which volume	2.5

* 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

In 2013, growth in the relevant world cosmetics market continued to slow. Our markets again declined and were characterized by intensified crowding-out competition. Despite this difficult and intensely competitive market, the Beauty Care business unit was able to secure further market share gains and continued to strengthen its leadership position in its relevant markets.

In our Branded Consumer Goods business, the mature markets proved to be weak. In Western Europe and North America in particular, persistently difficult economic conditions led to an environment that was marked by sustained, intense promotional activity, increased price pressure, and lower average prices. Despite this challenging market environment, we nonetheless succeeded in outstripping the market in overall terms and thus in gaining market share. In Western Europe we continued to strengthen and expand our leading positions. We also managed to strengthen our position in our core segments in North America. The emerging markets continued to grow, particularly in Africa/Middle East, Latin America and Asia (excluding Japan). The markets of Eastern Europe stagnated at the level of the previous year and experienced intensified crowding-out competition. Nevertheless, we succeeded in expanding our business in all regions. Thanks to the successful international launch of several product innovations, we were able to generate above-average growth in the emerging markets and achieved significant gains in market share.

In the Hair Salon business, continuing customer restraint caused the market to decline further. The negative economic conditions in Southern Europe were a significant contributory factor here. In this difficult environment, we outperformed the markets relevant to us, and strengthened our position as the world number three in the hair salon market.

Business activity and strategy

The Beauty Care business unit is active in the Branded Consumer Goods business with Hair Cosmetics, Body Care, Skin Care and Oral Care, as well as the professional Hair Salon business.

In the Branded Consumer Goods business, we want to continue expanding our innovation leadership in the mature markets in order to further grow our share there. 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. We are driving business development in our emerging markets by expanding our portfolio. In the Hair Salon business, we are continuing our globalization strategy, with particular focus on stimulating our emerging markets.

Organic growth is at the center of our growth strategy. We drive this strategy by focusing on our top brands, ensuring the rapid international launch of innovations with above-average profitability, and by selectively pursuing regional expansion. Further key success factors include strong support for our top brands through focused media 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, our focus is on the international expansion of our core businesses of Hair Cosmetics, Body Care, Oral Care and Skin Care. Our growth strategy is aligned to continuously strengthening our top brands. Based on the specific steps we have taken, we were able to further expand our top 10 brands. In 2013, they grew at a faster rate than the overall portfolio, and once again accounted for more than 90 percent of sales. In addition to strengthening our top brands, we focus particularly on the growth potential available in our key accounts. We develop our Hair Salon business through product innovations and efficient sales and distribution structures. At the same time, we continue to take advantage of new regional opportunities.

Through our concerted innovation strategy and consistent strengthening of our top brands, we want to continue generating dynamic, profitable growth. Again this year, we set new standards in the market with our innovation rate[1] of 45 percent. And we are developing additional growth potential through the expansion of strategic partnerships with our customers.

Top brands

Schwarzkopf

Dial

syoss

45 %
innovation rate.

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

Sales

in million euros

+3.0 %
organic sales growth.

Sales and profits

The Beauty Care business unit recorded solid organic sales growth in the reporting period and a strong increase in adjusted return on sales, thus continuing to build on the profitable growth of the previous years. Organically (i.e. adjusted for foreign exchange and acquisitions/divestments), sales increased by 3.0 percent. For the first time, the full-year adjusted return on sales reached 15.0 percent in 2013, 0.5 percentage points above the figure of the previous year. Organic growth was again considerably higher than in our relevant markets, and was achieved through increases in both price and volume. This was all the more gratifying in light of the growing, intensive competition and continued strong promotional activity that again characterized our market environment in 2013. As in previous years, the foundation for this success was provided by our strong innovation program.

In the following, we comment on our organic sales performance in the regions.

From a regional perspective, business performance was particularly successful in the emerging markets, with Asia (excluding Japan) standing out through double-digit growth thanks to dynamic business expansion in China. Continuing the successful trend of recent years, the Africa/Middle East region posted a double-digit growth rate despite political instability. Sales growth in Latin America and Eastern Europe was solid.

In the mature markets, we were able to increase organic sales overall. The solid sales growth in North America is particularly noteworthy. In Western Europe, we managed to record a positive performance. Despite the weak economy – in Southern Europe in particular – we succeeded in increasing sales in a declining market. Sales in the mature markets of the Asia-Pacific region, however, fell short of the previous year's level due to developments in Japan.

Operating profit (EBIT) declined by 1.9 percent versus the previous year, to 474 million euros. However, adjusted operating profit increased in the reporting period by 2.1 percent versus the prior year, to 525 million euros, our highest earnings figure to date. Adjusted return on sales rose by 0.5 percentage points to 15.0 percent, likewise reaching a new high. Our innovation initiatives and ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to offset the effects of increasingly intense promotional competition, and to maintain our gross margin at the prior-year level. In addition, prices for direct materials stabilized at the level of the previous year. The continued optimization of our cost structures contributed to the increase in profitability.

At –0.5 percent of sales, we further reduced net working capital and recorded an all-time low for the full year. Return on capital employed (ROCE) improved to 23.6 percent. Economic value added (EVA®) reached 323 million euros, increasing by 38 million euros compared to the prior year.

Business areas

In the following, we comment on the organic sales performance of our business areas.

Branded Consumer Goods

Our Branded Consumer Goods business achieved another solid increase in sales in 2013. Above all, the Hair Cosmetics business stood out with a strong increase in sales and again achieved a new high in market share. Growth was driven, in particular, by successful innovations under our Schwarzkopf and Syoss brands.

In the Hair Colorants business, we launched innovations that set new standards. With Color Ultimate, we introduced the first permanent foam hair color product that offers the possibility of multiple applications, and which can be used at the touch of a button with no mixing. We also launched Million Color, an intensive powder-to-cream colorant with the finest powder pigments for maximum color intensity and brilliant shine. Syoss Oleo Intense is an innovative development representing the first ammonia-free permanent colorant from Syoss activated by pure oils; it provides brilliant color intensity and 90 percent more shine.

In the Hair Care business, the introduction of Gliss Kur Ultimate Oil Elixir was a major growth driver. The new product line builds on the tremendous success of the innovative hair oils from Gliss Kur. With Syoss Supreme Selection, we created two lines of high-quality, professional care in close cooperation with salon experts: the Restore line for precise repair of damaged hair, and the Revive line for intensive shine and color sealing.

In the Hair Styling business, our strong performance was driven by the successful introduction of new styling lines, such as Taft Stylist Selection, the first Taft series in stylist quality. Strong growth was also stimulated by the launch of Taft Marathon – the first styling gel with 48-hour hold. Our trend styling brand Got2b posted double-digit sales growth, helped by the launch of Got2b beach babe – a texturizing styling spray for an unmistakable, "fresh off the beach" look.

The Body Care business benefited from significant innovations and continued to grow. Under the Fa brand, we launched Fa Shower + Lotion, the first shower care product with a body lotion complex. Fa Men Attraction Force is the first Body Care series from Fa enriched with pheromones. We also introduced Fa Romantic Moments, a line that leaves skin feeling soft and smooth. In deodorants, we now have Right Guard Xtreme Activated – the first adrenalin-activated deodorant. In the USA, Dial brought the megatrend of health drinks to shower care with the introduction of the Coconut Water line.

In the Skin Care business, we achieved a strong sales increase with the Diadermine brand, thanks to innovations in the anti-aging segment. The main drivers were Lift+ Soforteffekt, with a skin-firming effect in 90 seconds, and Lift+ Hautperfektion, with powerful anti-aging peptides that perfect the skin's structure for visibly refined skin. Also under the Diadermine brand, and in cooperation with Dr. Caspari, we introduced the skin care line Youth Infused, a particularly effective formulation for fighting wrinkles.

We likewise launched new products in the Oral Care business, including Vademecum ProVitamin, a toothpaste with a cell-stimulating pro-vitamin complex, and Theramed 2in1 Atemfrisch toothpaste with anti-bad breath technology.

Hair Salon

In our Hair Salon business, we did not reach the level of sales of the prior year due to the sustained decline in the market. While business performance was slowed due to the strong decline in the mature markets, especially in Southern Europe, sales in our emerging markets showed strong growth. We were therefore able to further consolidate our position as number three in the world.

We again stimulated the market with innovative launches. In hair colorants, the relaunch of Igora Royal means customers can now benefit from an even more impressive level of color performance. The introduction of Supreme Keratin, a salon-exclusive application for long-lasting hair smoothness, further underscores the innovative power of Schwarzkopf Professional worldwide. In styling, the Osis+ Session Label product line added new impetus to the market.

Capital expenditures

Investments in property, plant and equipment amounted to 63 million euros versus 62 million euros in the previous year. Investments focused primarily on expanding capacities and further streamlining production. We also invested in packaging tools for new products, and the expansion of our new production site in Russia.

Adhesive Technologies

Highlights

Sales growth

+2.7 %

organic sales growth

Adjusted[1] operating profit

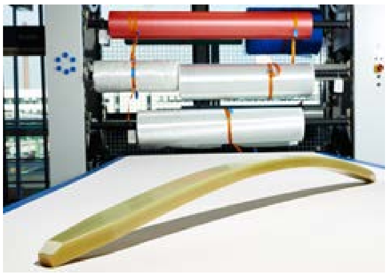
1,370 million euros

adjusted[1] operating profit (EBIT): up 9.9 percent

Adjusted[1] return on sales

16.9 %

adjusted[1] return on sales (EBIT): up 1.8 percentage points



Loctite MAX 2

The matrix resin Loctite MAX 2 is designed for the series production of fiber-reinforced, lightweight components in automotive construction. In cooperation with automotive supplier Benteler-SGL, Henkel has developed a process for the large-scale manufacture of fiberglass-reinforced leaf springs that weigh up to 65 percent less than steel leaf springs.

www.henkel.com/automotive

Ceresit Impactum

Ceresit Impactum is an innovative external thermal insulation composite system. As a facade product, it offers exceptional resistance, excellent insulation, and high flexibility, leading to a substantial reduction in energy consumption, and maintenance and repair costs.

www.ceresit-impactum.com

Loctite UF3808

The halogen-free underfill Loctite UF3808 provides exceptional impact and shock protection for electronic components. It cures quickly at low temperatures, reducing stress on other components. The material's mechanical properties ensure protection for solder joints even under changing temperatures.

www.henkel.com/electronics

Key financials *

in million euros	2012	2013	+/–
Sales	8,256	8,117	–1.7 %
Proportion of Henkel sales	50 %	50 %	–
Operating profit (EBIT)	1,191	1,271	6.7 %
Adjusted operating profit (EBIT)	1,246	1,370	9.9 %
Return on sales (EBIT)	14.4 %	15.7 %	1.3 pp
Adjusted return on sales (EBIT)	15.1 %	16.9 %	1.8 pp
Return on capital employed (ROCE)	16.5 %	18.8 %	2.3 pp
Economic value added (EVA®)	363	562	54.8 %

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

Sales development *

in percent	2013
Change versus previous year	–1.7
Foreign exchange	–4.5
Adjusted for foreign exchange	2.8
Acquisitions / divestments	0.1
Organic	2.7
of which price	0.8
of which volume	1.9

* 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 economic environment for the Adhesive Technologies business unit was characterized by moderate growth in our relevant markets, which was in many instances lower than initially forecasted. The effects were felt mainly in the emerging markets outside Europe, and in the markets of Western Europe and North America. Trends in important industrial markets such as those in the automotive and electronics industries were subdued. Private consumption remained largely stable. Global market growth was again driven by positive development overall in the emerging markets. The highest rate of growth was seen in Asia (excluding Japan). The markets in Western Europe and the mature markets of the Asia-Pacific region declined slightly. The markets of North America showed a moderate increase.

Overall, we were able to further extend our leading market position in 2013.

Business activity and strategy

The Adhesive Technologies business unit provides tailor-made solutions worldwide with adhesives, sealants and functional coatings in two business areas: Industry, and Consumer, Craftsmen and Building. With our global presence, our unique portfolio of technologies and our leading adhesive specialists worldwide keeping us in close contact with our customers, we are able to provide innovative customized solutions of the highest quality, combined with the best service. At the same time, shared technology, structures, and systems along our value chain create a strong platform for synergies.

In the Packaging and Consumer Goods Adhesives business, we work with major international customers to develop innovative solutions for the production of grocery packaging and consumer goods. Our customers benefit from our comprehensive applications expertise, which we provide through our global technical customer service. Strategic partnerships with the manufacturers of adhesive application equipment make a significant contribution to the continued development of our portfolio. Because of our global presence, we are able to offer tailor-made solutions to customers around the world.

In the Transport and Metal business, we provide the automotive, aircraft, and metal processing industries with superior system solutions and specialized technical services. Our customers are major international manufacturers and suppliers. Through our early involvement in our customers' design and development processes, we consistently succeed in providing innovative solutions to new challenges in, for example, lightweight construction. Our customized products and services are based on our broad technology portfolio and global applications expertise that extends across our customers' entire value chain.

In the General Industry business, we offer a comprehensive portfolio of products for the manufacture and maintenance of durable goods. Our customers in this area range from manufacturers of household equipment and appliances to producers of wind power plants. In addition to our in-house technical customer service experts, we tap into a strong global network of trained distribution partners to provide our customers with best-in-class service. Regular training programs for users and the joint development of new adhesive solutions are also important drivers of growth and differentiation.

Our Electronics business offers customers from the electronics industry worldwide a comprehensive portfolio of innovative high-technology adhesives for the manufacture of microchips and electronic assemblies. We combine our expertise with substantial investments in our technology portfolio to develop innovative solutions for both current and future product generations. Our global presence enables us to collaborate closely with development centers of major electronics firms while providing intensive support for the production processes, which are mainly located in the emerging markets.

In the Adhesives for Consumers, Craftsmen and Building business, we market a wide range of brand-name products for private users and craftsmen. We offer innovative products and full system solutions based on our strong brand platforms, leveraging the latest developments from our broad technology portfolio. To provide an optimal level of service to our customers worldwide, we work closely with both international distribution partners and well-established local distributors.

Top brands

LOCTITE

TEROSON

TECHNOMELT

Sales

in million euros

+2.7 %

organic sales growth.

30 %

innovation rate.

For the Adhesive Technologies business unit, we aim to further expand our competitive advantages by offering tailor-made solutions based on comprehensive expertise in products and technologies, our global presence, and close partnerships with customers. The size of Adhesive Technologies and its position as a market leader in various businesses allow us to leverage extensive synergies in research and development, production, and materials management. In addition to strong organic growth potential, acquisitions – and their rapid integration – are important instruments for the further development of our business. Active portfolio management plays a central role in continuing our profitable growth. This entails both reinforcing organic sales growth through targeted investments in particularly attractive emerging markets, and investing in growth through acquisitions. It also involves deliberately reducing the importance of businesses that offer little opportunity for differentiation, and carving out non-core activities with no strategic significance.

Expanding our leadership in innovation is another important cornerstone of our growth strategy. Here our activities center on opening new fields of application through innovative adhesive technologies, as well as optimizing the performance and sustainability of our existing solutions. In 2013, we generated 30 percent of our sales from products successfully launched onto the market in the last five years.

To strengthen our relationships with customers, we often start working with them right from the design and product development phase. We also extend our partnerships to other strategically important players in the market. Our product solutions are aimed at around 130,000 direct customers with very different requirements. Thus, stronger differentiation in customer service is playing an increasingly important role in the configuration of our portfolio of products and services.

We drive the globalization of our businesses by accelerating expansion of the strong positions we hold in emerging markets. We accomplish this by continuously investing in capacity expansion there, and by strengthening our teams both quantitatively and qualitatively. This enables us to ensure a high level of local service and technical competence for our customers around the world, while specifically promoting growth among local customers. Our focus in North America and Europe centers primarily on utilizing economies of scale and strengthening our leading market positions.

We are continuing to consolidate our brand portfolio in order to provide customers across all of our businesses with a simpler and more direct understanding of our overall offering, and to further improve efficiency. This involves structuring our industrial business into the brands Loctite, Bonderite, Technomelt, Teroson and Aquence, each of which represents a group of specific technologies and applications. In the consumer business, we are further strengthening our four existing brand platforms Loctite, Pritt, Pattex and Ceresit. In 2013, over 70 percent of our sales were generated by our top 10 brands.

Sales and profits

The Adhesive Technologies business unit achieved solid organic sales growth in the reporting period, and an excellent increase in adjusted return on sales, thus continuing its profitable growth trend of the previous years. Organically – i.e. adjusted for currency exchange and acquisitions/divestments – sales grew by 2.7 percent overall, slightly more than the market as a whole. This was achieved through increases in both price and volume. Adjusted return on sales increased by 1.8 percentage points and reached 16.9 percent for the full year for the first time. Our active portfolio management, leverage of scale economies, strong position in emerging markets, and strict cost management all contributed to this increase.

In the following, we comment on our organic sales performance in the regions.

The sales increase was driven mainly by the emerging markets, in which we recorded strong growth. The Latin America region performed particularly well with double-digit growth. Eastern Europe also recorded a strong rise in sales. The Asia-Pacific region (excluding Japan) showed solid performance. Revenue development in the Africa/Middle East region was positive.

In the mature markets, organic sales growth was positive. North America posted a positive performance year on year. Sales were stable in Western

Europe despite the difficult economic environment. However, sales in the mature markets in Asia fell short of the previous year's level.

Operating profit (EBIT) again reached a new high in 2013, increasing to 1,271 million euros. Adjusted operating profit increased to 1,370 million euros, its highest ever level. Consistent development of our portfolio and ongoing measures to reduce costs and enhance production and supply chain efficiency enabled us to further increase our gross margin. Prices for direct materials remained at the level of the previous year. We again reduced net working capital as a percentage of sales versus the previous year and, at 10.0 percent, achieved our lowest year-end figure to date. Return on capital employed (ROCE) improved by 2.3 percentage points to 18.8 percent. Economic value added (EVA®) reached 562 million euros, an increase of 199 million euros compared to the prior year.

Business areas

In the following, we comment on the organic sales performance of our business areas.

Industrial Adhesives

We posted a solid increase in sales in the Packaging and Consumer Goods Adhesives business. Performance was especially driven by adhesives for the production of flexible packaging. From a regional perspective, we recorded a strong increase in the emerging markets, and we achieved positive performance in the mature markets as well. Close cooperation with customers, strategic partnerships such as our global alliance with US-based Nordson Corporation, and our pan-European initiative for food safe packaging all made decisive contributions to our solid growth in sales.

The Transport and Metal business showed the highest increase in sales and posted strong organic growth. Particularly successful performance was demonstrated by our surface treatment products and our structural adhesives for use in automotive construction. All regions contributed to sales growth. Our innovative solutions for automotive construction, such as our matrix resin Loctite MAX 2 for the series production of lightweight components, delivered an important stimulus in the market.

The performance of our General Industry business was also positive compared to the prior year. Products for use in vehicle repair and maintenance made a significant contribution to this performance. Particularly high growth rates were achieved in the emerging markets of Asia and Latin America. Our special training programs for the users of our products were an additional driver of the positive performance posted.

The Electronics business was unable to match the sales level of the previous year. Performance was affected by the shift in consumer demand from personal computers to mobile devices that require fewer semiconductors. On the other hand, we were able to generate momentum through innovations, such as new solutions in the field of touch-sensitive sensor applications, and innovative heat-conducting films that meet the rising requirements for heat dispersion in ever-smaller mobile devices.

Adhesives for Consumers, Craftsmen and Building

Sales performance in the Adhesives for Consumers, Craftsmen and Building business was solid compared to the previous year. Performance by products for home improvement and repair was especially gratifying. The launch of the innovative composite system Ceresit Impactum for external thermal insulation stimulated business in the building industry in particular.

Capital expenditures

In line with our strategy, the focus in 2013 was on the expansion of our production capacity in the emerging markets and the increase of our production efficiency. Overall, we increased capital expenditures for property, plant and equipment from 179 million euros in 2012 to 181 million euros in the year under review.

Risks and opportunities report

Risks and opportunities

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

Entrepreneurial activity also involves identifying and exploiting opportunities as a means of securing and extending the corporation's competitiveness. The reporting aspect of our risk management system, however, does not encompass entrepreneurial opportunity. Early and regular identification, analysis and exploitation of opportunities is performed at the Group level and within the individual business units. It is a fundamental component of our strategy. We perform in-depth analysis of the markets and our competitors, and study the relevant cost variables and key success factors.

Risk management system

The risk management system at Henkel is integrated into the comprehensive planning, controlling, and reporting systems used in the subsidiaries, in the business units, and at Group level. Our early warning system and Internal Audit function are also important components of our risk management system. Within the corporate governance framework, our internal control and compliance management systems support our risk management capability. The risk reporting system encompasses the systematic identification, evaluation, documentation and communication of risks. We have defined the principles, processes and responsibilities relating to risk management in a corporate standard that is binding on the Henkel Group. With the continuous development of our corporate standards and systems we take into account updated findings.

Within our risk strategy framework, the assumption of calculated risk is an intrinsic part of our business. However, risks that endanger the existence of the company must be avoided. When it is not possible to avoid these critical risks, they must be reduced or transferred, for example through insurance. Risks are controlled and monitored at the level of the subsidiaries, the business units, and the Group. Risk management is thus performed with a holistic, integrative approach to the systematic handling of risks.

We understand risks as potential future developments or events that could lead to negative deviations from our guidance. Risks with a probability of occurrence of over 50 percent are taken into account in our guidance and short-term planning. As a rule, we estimate risks for the one-year forecast period.

The annual risk reporting process begins with identifying material risks using checklists based on defined operating (for example procurement and production) and functional (for example information technology and human resources) risk categories. We evaluate the risks in a two-stage process according to the probability of occurrence and potential loss. Included in the risk report 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 probability of occurrence is considered greater than zero.

We initially determine the gross risk and subsequently the net risk after taking countermeasures into account. Initially, risks are compiled on a decentralized, per-country basis, with the assistance of regional coordinators. The locally collated risks are then analyzed by experts in the business units and corporate functions. In particular areas such as Corporate Treasury, risks are determined with the support of sensitivity analyses including value-at-risk computations. Risk analyses are then prepared for the respective executive committees of the business units and corporate functions, and finally assigned to an area-specific risk inventory. The risk situation is subsequently reported to our Compliance & Risk Committee, the Management Board and the various supervising boards. Material unforeseen changes are reported immediately to the CFO and the Compliance & Risk Committee. Corporate Accounting is responsible for coordinating the overall process and analyzing the inventoried exposures.

The risk reporting process is supported by a web-based database which ensures transparent communication throughout the entire Group. Our Internal Audit function regularly reviews the quality and function of our risk management system.

Within the framework of the 2013 audit of our annual financial statements, our external auditor examined the structure and function of our risk early warning system in accordance with Section 317 (4) of the German Commercial Code [HGB] and confirmed its 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 HGB. Corresponding with the definition of our risk management system, the objective of our accounting processes lies in the identification, evaluation and management of all risks that jeopardize the regulatory preparation of our annual and consolidated financial statements. Accordingly, the internal control system's function is to implement relevant principles, procedures and controls so as to ensure the financial statement closing process is regulatory compliant. 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 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. These are assessed by regular and comprehensive effectiveness tests performed by our Internal Audit function. Of the multifaceted control processes incorporated into the accounting process, several are important to highlight.

The basis for all our accounting processes is provided by our corporate standard "Accounting," which contains detailed accounting and reporting instructions covering all material circumstances. It covers, for example, clear procedures for inventory valuation or how transfer prices applicable for intra-group transactions should be determined. This corporate standard is binding on the entire Group and is regularly updated and approved by the CFO. The local Presidents and Heads of Finance of all consolidated subsidiaries must confirm their compliance with such corporate standards on an annual basis.

Further globally binding procedural instructions affecting our accounting practice are contained in our corporate standards "Treasury" and "Investments." Through appropriate organizational measures in conjunction with restrictive access to our information systems, we ensure segregation of duties in our accounting systems between transaction entry on the one hand, and checking and approval on the other. Documentation relating to the operational accounting and closing processes ensures that important tasks – such as the reconciliation of receivables and payables on the basis of account balance confirmations – are clearly assigned. Additionally, binding authorization regulations exist governing the approval of contracts, credit notes and the like, with strict adherence to the four-eyes principle as a mandatory requirement. This is also stipulated in our Group-wide corporate standards.

The significant risks for Henkel and the corresponding controls with respect to the regulatory preparation of our annual and consolidated financial statements are collated in a central documentation pack. This documentation is reviewed and updated annually by the respective process owners. The established systems are regularly reviewed with regard to their improvement and optimization potential. We consider these systems to be appropriate and effective.

The accounting activities for subsidiaries included in the consolidated financial statements are performed either locally by the subsidiary or through a shared service center taking the corporate standards into account. The ERP systems in use are based on Group-wide standardized SAP systems. The individual subsidiaries' financial statements are transferred to our central consolidation system and checked at corporate level for correctness. After all consolidation steps have been completed, the consolidated financial statements are prepared by Corporate Accounting in consultation with the specialist departments. Preparation of the Group management report is coordinated by Investor Relations in cooperation with each business unit and corporate function. The Management Board then compiles the Group management report and consolidated financial statements, as well as the management report and annual financial statements of Henkel AG & Co. KGaA, and subsequently presents these documents to the Supervisory Board for approval.

Major risk categories

Risk category	Probability	Potential financial impact
Operating risks		
Procurement market risks	Low	Major
Production risks	Moderate	Moderate
Macroeconomic and sector-specific risks	High	Major
Functional risks		
Financial risks		
Credit risks	Low	Major
Liquidity risks	Low	Minor
Currency risks	High	Major
Interest rate risks	Moderate	Minor
Risks from pension obligations	Low	Major
Legal risks	Low	Major
IT risks	Low	Major
Personnel risks	High	Minor
Risks in connection with our brand image or reputation of the company	Low	Major
Environmental and safety risks	Low	Major
Business strategy risks	Moderate	Moderate

Classification of risks in ascending order

Probability	
Low	1 – 9 %
Moderate	10 – 24 %
High	≥ 25 %
Potential financial impact	
Minor	1 – 49 million euros
Moderate	50 – 99 million euros
Major	≥ 100 million euros

Major risk categories

The risks are presented from a net perspective, where their respective risk mitigation measures are taken into account.

Operating risks

Procurement market risks

Description of risk: Moderate price increases in our procurement markets are expected in 2014. Due to geopolitical and global economic uncertainties, we expect prices to fluctuate throughout the course of the year. As a result of this uncertainty as it relates to the development of raw material prices that cannot always be passed on in full, we see additional risks arising beyond our guidance in relation to important raw materials and packaging which could impact our profitability. The segments in the industrial goods sector are affected to a greater extent by these price risks than the individual segments in the consumer goods sector. Additional price and supply risks exist due to possible demand or production-related shortages in the procurement markets. Continued unrest in the Africa/Middle East region, in particular, could lead to rising material prices and supply shortages.

Measures: The measures taken include active supplier portfolio management through our globally engaged, cross-divisional sourcing capability, together with strategies aimed at securing price and volume both through contracts and, where appropriate and possible, through financial hedging instruments. (Further information relating to the risks arising from derivative financial instruments used for hedging purposes can be found in the notes to the consolidated financial statements on pages 140 to 152.) Furthermore, we work in interdisciplinary teams within Research and Development, Supply Chain Management and Purchasing on devising alternative formulations and packaging forms so as to be able to respond flexibly to unforeseen fluctuations in raw material prices. We also avoid becoming dependent on individual suppliers so as to better secure the constant supply of the goods and services that we require. Finally, close collaboration with our strategic suppliers plays an exceptionally important role in our risk management. Further details regarding the assessment of supplier financial stability can be found in the section on “Procurement” on pages 69 and 70. The basis for our risk management approach is a comprehensive procurement information system that ensures permanent transparency with respect to our purchasing volumes.

Impact: Low probability rating, possible major impact on our earnings guidance.

Production risks

Description of risk: Henkel faces production risks in the event of low capacity utilization due to volume decreases and unplanned operational interruptions, especially at our single-source sites.

Measures: We can offset the negative effects of possible production outages through flexible production control and, where economically viable, insurance policies. Such production risks are minimized by ensuring high employee qualification, clearly defined safety standards, and regular plant and equipment maintenance. Capital expenditure decisions on property, plant and equipment are made in accordance with defined, differentiated responsibility procedures and approval processes. They incorporate all relevant specialist functions and are regulated in an internal corporate standard. Investments are analyzed in advance on the basis of detailed risk aspects. Further auditing accompanying projects provides the foundation for project management and risk reduction.

Impact: Moderate probability rating, possible moderate impact on our earnings guidance.

Macroeconomic and sector-specific risks

Description of risk: We remain exposed to macroeconomic risks emanating from the uncertainties of the current geopolitical and economic environment. A decline in the macroeconomic environment poses a risk to the industrial sector in particular. A downturn in consumer spending is especially relevant for the consumer segments. A prolonged debt and financial crisis would affect our markets in Southern Europe in particular. A further significant risk is posed by an increasingly competitive environment, as this could result in stronger price and promotional pressures in the consumer goods area. As consolidation in the retail sector continues and private labels occupy a growing share of the market, crowding-out competition in consumer goods could intensify. The risk of product substitution inherent in this could in principle affect all business units.

Measures: We focus on continuously strengthening our brands (see separate risk description on pages 96 and 97) and consistently developing further innovations. We consider innovative products as a significant success factor for our company, enabling us to differentiate ourselves from the competition. Furthermore, we also pursue specific sales and marketing initiatives, for example advertising and promotional activities. In addition, we have the capability to react quickly to potential sales declines through flexible production control.

Impact: High probability rating, possible major impact on our sales and earnings guidance.

Functional risks

Financial risks

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

For the description of credit risks, liquidity risks, currency risks and interest rate risks, please refer to the notes to the consolidated financial statements on pages 140 to 152. For the risks arising from our pension obligations, please see pages 128 to 136.

Measures: Risk-mitigating measures and the management of these risks are also described in the notes to the consolidated financial statements on the pages mentioned.

Impact: We classify the financial risks as follows:

- Credit risk with a low probability of a major impact on our earnings guidance
- Liquidity risk with a low probability of a minor impact on our earnings guidance
- Currency risk with a high probability of a major impact on our earnings guidance
- Interest rate risk with a moderate probability of a minor impact on our earnings guidance
- Risks arising from our pension obligations with a low probability of a major impact on our earnings guidance, but with a high probability of a major impact on our equity

Legal and regulatory risks

Description of risk: As a globally active corporation we are exposed, in the course of our ordinary business activities, to a range of risks relating to litigations and other actions, including government agency proceedings 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, competition and cartel law, infringement of proprietary rights, patent law, tax law and environmental protection and soil contamination. We cannot rule out the likelihood of negative rulings on current litigations and further litigations being initiated in the future.

Our business is subject to various national rules and regulations as well as – within the European Union (EU) – increasingly 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 registration, evaluation, 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 governed by framework rules and regulations, including those relating to the decontamination of soil. Violation of such regulations may lead to legal proceedings or compromise our future business activities.

Measures: Our internal standards, guidelines, codes of conduct, and training measures are geared to ensuring compliance with statutory regulations and, for example, the safety of our manufacturing facilities and products. These requirements have also been incorporated into our management systems and are regularly audited. Ensuring compliance with laws and regulations is an integral component of our business processes. This includes the early monitoring and evaluation of relevant statutory and regulatory requirements and changes. Henkel has established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible General Counsel & Chief Compliance Officer (for detailed information, see the corporate governance report on pages 25 to 33). In addition, our corporate legal department maintains constant contact with local counsel. Current proceedings and potential risks are collected in a separate reporting system. For certain legal risks, we have concluded insurance policies that are standard for the industry and that we consider to be appropriate. However, the outcome of proceedings are inherently difficult to foresee, especially in cases in which the claimant is seeking substantial or unspecified damages. In view of this, we are unable to predict what obligations may arise from such litigation. Consequently, major losses may result from litigation and proceedings that are not covered by our insurance policies or provisions.

Impact: Low probability rating, possible major impact on our earnings guidance.

Supplementary information on selected proceedings:
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 in 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 paid the amount and filed an action against the decision of the French antitrust authorities. In our opinion and that of our legal counsel, the French antitrust authorities' decision is not legally correct. We cooperated extensively with the relevant 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 opinion, the case in France is directly related to the antitrust violations concerning heavy-duty detergents in various Western European countries – including France – that led to sanctions being imposed by the European Commission on April 13, 2011 and in respect of which we were granted full exemption from said sanctions. It would be contradictory if the French antitrust authorities were able to impose separate sanctions on us in respect of these infringements.

In addition to other retail companies and manufacturers, Henkel is involved in an antitrust litigation involving consumer goods (cosmetics and detergents) in Belgium relating to violations in the period from 2004 to the beginning of 2007. The action relates to a possible collusion between various Belgian retail companies to raise consumer prices (including prices for products in Henkel's portfolio) with the involvement of Henkel. Henkel has received a corresponding statement of objections. A conclusive assessment of the outcome of the litigation and amount of any fine that might be levied is not possible at present.

Information technology risks

Description of risk: Information technology has strategic significance for Henkel. Our business processes rely to a great extent on IT services, applications, networks, and infrastructure systems. The failure or disruption of critical IT services and the loss of confidential data constitute material risks for Henkel. The failure of computer networks or disruption of important IT applications can impair critical business processes. The loss of confidential data, for example formulations, customer data or price lists, could benefit Henkel's competitors. Henkel's reputation could also be damaged by such loss.

Measures: Henkel's information security strategy is based on the international standards ISO 27001 and 27002. Major components include the classification of information, business processes, IT applications, and IT infrastructure elements with respect to confidentiality, availability, integrity, and data protection requirements, as well as measures for avoiding risk.

Our critical business processes operate through redundantly configured systems designed for high availability. Our data backup procedures reflect state-of-the-art technology practice. We regularly review our restore and disaster-recovery processes. We develop our systems using proven project management and program modification procedures.

Access to buildings and areas containing IT systems, access to computer networks and applications, as well as user authorizations for our information systems, are strictly limited to the minimum level necessary. For critical business processes, the required segregation of duties is enforced by technological means.

Our networks are protected against unauthorized external access where economically viable. Operating systems and anti-virus software are automatically updated to their latest version on a continuous basis.

We inform and instruct our employees in the proper and secure use of information systems as part of their regular duties.

The implementation of our security measures is continuously reviewed by our Internal Audit function, other internal departments, and independent third parties.

Impact: Low probability rating, possible major impact on our earnings guidance.

Personnel risks

Description of risk: The motivation and the qualification of our employees are key drivers of Henkel's business success. Therefore, it is strategically important to recruit highly qualified professionals and executives and ensure they stay with the company. In selecting and employing talent, we compete globally for qualified professionals and executives, and we are acutely aware of the effects of demographic change in many of our markets.

Measures: We combat the risk of losing valuable employees through specifically developed personnel development programs and incentive systems. Supporting this is an established thorough annual review process from which we derive individually tailored and future-viable qualification programs as well as performance-related remuneration systems. We also provide a health management and consultation service on a global scale for our employees, aligned to their age and circumstances.

We reduce the risk of not being able to recruit qualified professionals and executives by expanding our employer branding initiatives and through targeted cooperation with colleges and universities in all regions where we conduct business. Our attractiveness as an employer is reinforced by our focus on promoting talent and specialized development programs.

Further information relating to our employees can be found on pages 66 to 68.

Impact: High probability rating, possible minor impact on our earnings guidance.

Risks in connection with our brand image or reputation of the company

Description of risk: As a globally operating corporation, Henkel is exposed to the potential damage of its image in the event of negative reports in the media – including social media – regarding Henkel's corporate brand or individual product brands, particularly in the consumer goods sector. These could lead to a negative impact on sales.

Measures: We minimize these risks through the measures described under the statutory and regulatory risks (see page 94) and pro-active public relations management. The former ensures that our production facilities and products are safe. The latter reinforces our corporate brand and individual product brands. These measures are supported by a global communication network, and international and local crisis management systems with regular training sessions and crisis response planning.

Impact: Low probability rating, possible major impact on our sales and earnings guidance.

Environmental and safety risks

Description of risk: Henkel is a global manufacturing corporation and is therefore exposed to risks pertaining to the environment, safety, health, and social standards manifesting in the form of personal injury, physical damage to goods, and reputational damage. Soil contamination and the associated remediation expense as well as leakage or other technical failures could give rise to direct costs for the corporation. Furthermore, indirect costs such as fines, claims for compensation or reputational damage may also be incurred.

Measures: We minimize these risks through the measures described under statutory and regulatory risks (see pages 94 and 95), and through our auditing, advisory, and training activities. We update these preventive measures continuously in order to ensure that our facilities, assets, and reputation are properly safeguarded. We ensure compliance with high technical standards and relevant statutory requirements as a further means of preserving our operational capability.

Impact: Low probability rating, possible major impact on our earnings guidance.

Business strategy risks

Description of risk: Business strategy risks can arise from the expectations we set for internal projects, acquisitions, and strategic alliances failing to materialize. The associated capital expenditures may not be recouped. Individual projects could also be delayed or even halted by unforeseen risks coming to light.

Measures: We combat these risks through comprehensive project management. We limit exposure through financial viability assessments in the review, decision, and implementation phase. These assessments are performed by specialist departments, supported by external consultants where appropriate. Project transparency and control are supported by our management systems.

Impact: Moderate probability rating, possible moderate impact on our earnings guidance.

Major opportunity categories

Entrepreneurial opportunities are identified at Group level and in the individual business units, evaluated, and duly incorporated into the strategy and planning processes. We understand the opportunities presented in the following as potential future developments or events that could lead to a positive deviation from our guidance. We also assess price-related procurement market and financial opportunities.

Macroeconomic and sector-specific opportunities

Description of opportunities: Additional business opportunities would arise, should the uncertain geopolitical and macroeconomic situation in some regions such as Africa/Middle East or the economic conditions in individual sectors such as the electrical industry develop substantially better than expected.

Impact: The opportunities described could have a major impact on our sales and earnings guidance.

Procurement market opportunities

Description of opportunities: Countervailing the procurement market risks listed on pages 92 and 93, opportunities may also arise in which the influencing factors described in this section develop in a direction that is advantageous to Henkel.

Impact: Low probability rating, possible major impact on our earnings guidance.

Financial opportunities

Description of opportunities: Countervailing the credit risks, liquidity risks, currency risks, interest rate risks, and risks arising from our pension obligations listed under the financial risks on pages 93 and 94, opportunities may also arise in which the influencing factors described in this section develop in a direction that is advantageous to Henkel.

Impact: We classify financial opportunities as follows:

- Currency opportunities with a moderate probability of a major impact on our earnings guidance
- Interest rate opportunities with a moderate probability of a minor impact on our earnings guidance
- Opportunities arising from our pension obligations with a low probability of a major impact on our earnings guidance, but with a high probability of a major impact on our equity

Acquisition opportunities

Description of opportunities: Acquisitions are an essential component of our strategy. Only acquisitions that have been concluded are included in our guidance.

Impact: Large acquisitions could have a major impact on our earnings guidance.

Research and development opportunities

Description of opportunities: Opportunities arising from our predominantly continuous innovation process are an essential component of our strategy and are already accounted for in our guidance. There are additional opportunities in the event of product introductions that exceed our expectations of market acceptance, and in the development of exceptional innovations that have not yet been taken into account.

Impact: Innovations arising from future research and development could have a major impact on our sales and earnings guidance.

Risks and opportunities in summary

At the time this report was prepared, there were no identifiable risks related to future developments that could endanger the existence either of Henkel AG & Co. KGaA, or a material subsidiary included in the consolidation, or the Group as a going concern. As we have no special-purpose entities or investment vehicles, there is no risk that might originate from such a source.

Compared to the previous year, our expectation of the likelihood and/or of possible financial impact of individual risk and opportunity categories has slightly increased. Nevertheless, the overall risk and opportunities situation has not changed to any significant degree.

The system of risk categorization adopted 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 above. The Management Board remains confident that the earning power of the Group forms a solid foundation for future business development and provides the necessary resources to leverage our opportunities.

Forecast

Macroeconomic development

Overview: moderate gross domestic product growth of approximately 3 percent
We expect global economic growth to again remain moderate in 2014. Based on figures published by Feri EuroRating Services, we expect gross domestic product to increase by approximately 3 percent.

We expect the mature markets to grow by approximately 2 percent. The North American economy is likely to grow by around 3 percent, with Japan's expanding by around 2 percent. We expect economic growth in Western Europe of around 1 percent.

The emerging markets will once again achieve comparatively strong economic growth of around 4 percent in 2014. In the case of Asia (excluding Japan), we expect economic output to increase by around 6 percent, with Latin America likely posting a plus of approximately 3 percent. Eastern Europe should grow by approximately 2 percent. For the Africa/Middle East region, we expect economic growth of approximately 4 percent.

Direct materials: moderate rise in price level
We anticipate moderate price increases for direct materials in 2014. In light of the geopolitical and global economic situation, we expect the procurement markets to remain highly volatile. Limited capacities in some supply areas may lead to shortages.

Currencies: moderate devaluation against the euro
Overall, we anticipate a moderate devaluation versus the euro for Henkel's most important currencies arising from the expected development of major currencies in the emerging markets. On the other hand, we do not expect any material change in the euro exchange rate versus the US dollar, and anticipate an annual average for 2014 of around 1.32 US dollars per euro.

Inflation: moderate rise in global price levels
According to data provided by Feri EuroRating Services, global inflation is predicted to be approximately 3.5 percent in 2014. While we can continue to expect a high degree of price stability for the mature markets with a rise of approximately 2 percent, the inflation rate in the emerging regions is likely to average around 6 percent.

Sector development

Consumption and the retail sector: growth of less than 3 percent
Based on data provided by Feri EuroRating Services, we anticipate that worldwide private consumption will rise by less than 3 percent in 2014. In the mature markets, consumers are likely to spend around 2 percent more than in the previous year. The emerging markets should again demonstrate a higher propensity to spend, with a rise of around 4 percent in 2014.

Industry: growth of approximately 5 percent
According to figures provided by Feri EuroRating Services, industry will grow globally by approximately 5 percent compared to the previous year and, as such, faster than the overall economy.

We expect the transport industry to register a plus of approximately 5 percent. Production in the electronics industry will also grow by approximately 5 percent. Within the electronics industry, the growth of basic products relevant for Henkel, such as electrical systems and semiconductor units, should be considerably higher than in the previous year. Production in the metal industry is likely to expand by approximately 5 percent. Development in consumer-related sectors, such as the global packaging industry, is likely to be stronger than in the previous year, with growth in the low single-digit range according to our estimates. We expect global construction to expand by approximately 3.5 percent.

Outlook for the Henkel Group 2014

We expect the Henkel Group to generate organic sales growth of 3 to 5 percent in fiscal 2014. Our expectation is that each business unit generates organic sales growth within this range.

In line with our 2016 strategy, we furthermore expect a slight increase in the share of sales from our emerging markets.

The starting point for our expected organic sales growth is our strong competitive position. We have consolidated and further developed this in recent years through our innovative strength, strong brands, leading market positions as well as the quality of our portfolio.

In recent years we have introduced a number of measures that have had a positive effect on our cost structure. Also in this year, we intend to continue adapting our structures to constantly changing market conditions and to continue our strict cost discipline. Through optimization and standardization of processes and continued expansion of our shared services, we can pool activities and thus further improve our efficiency while simultaneously enhancing the quality of our customer service. Moreover, the optimization of our production and logistics networks will contribute to improving our cost structures.

These factors, together with the expected increase in sales, will have a positive effect on our earnings performance. Compared to the 2013 figures, we expect our adjusted return on sales (EBIT) to increase to around 15.5 percent, and that all business units will contribute to this improvement. We expect an increase in adjusted earnings per preferred share in the high single digits.

Furthermore, we have the following expectations for 2014:

- Moderate increase in the prices for raw materials, packaging, and purchased goods and services
- Restructuring charges at the level of the previous year
- Investments in property, plant and equipment and intangible assets between 500 and 550 million euros

Dividends

Subject to the approval of the Supervisory Board and the Shareholders' Committee, future dividend payouts of Henkel AG & Co. KGaA shall, depending on the company's asset and profit positions, as well as its financial requirements, amount to 25 percent to 35 percent of net income after non-controlling interests, and adjusted for exceptional items.

Capital expenditures

We are planning to increase our investments in property, plant and equipment and intangible assets to approximately 500 to 550 million euros in fiscal 2014. We will allocate the largest share of our budget to expanding our business in emerging markets.

Considerable investments are planned in the Laundry & Home Care and Beauty Care business units for optimizing and expanding production in the Eastern Europe and Africa/Middle East regions. In the Adhesive Technologies business unit, the focus in 2014 will be on further expanding our production capacity in the emerging markets of Asia and Eastern Europe. In addition, investments in IT infrastructure will contribute substantially to optimizing our processes.

Subsequent events

The action we filed against the French antitrust authorities relating to the fine of 92 million euros that was imposed on, and paid by, Henkel (for details, see risk report on page 95) was turned down by the court of first instance on January 30, 2014. We will decide whether to appeal once we have learned the reasons for the ruling.

Consolidated financial statements

Consolidated statement of financial position

Assets

in million euros	Note	2012	%	2013	%
Intangible assets	1	8,645	44.3	8,189	42.3
Property, plant and equipment	2	2,314	11.9	2,295	11.9
Other financial assets	3	258	1.3	148	0.8
Income tax refund claims		1	–	6	–
Other assets	4	117	0.6	116	0.6
Deferred tax assets	5	592	3.0	606	3.1
Non-current assets		**11,927**	**61.1**	**11,360**	**58.7**
Inventories	6	1,478	7.6	1,494	7.7
Trade accounts receivable	7	2,021	10.4	2,370	12.3
Other financial assets	3	2,443	12.5	2,664	13.8
Income tax refund claims		164	0.8	128	0.7
Other assets	4	216	1.1	241	1.2
Cash and cash equivalents	8	1,238	6.3	1,051	5.4
Assets held for sale	9	38	0.2	36	0.2
Current assets		**7,598**	**38.9**	**7,984**	**41.3**
Total assets		**19,525**	**100.0**	**19,344**	**100.0**

Equity and liabilities

in million euros	Note	2012	%	2013	%
Issued capital	10	438	2.2	438	2.3
Capital reserve	11	652	3.4	652	3.4
Treasury shares		– 91	– 0.5	– 91	– 0.5
Retained earnings	12	9,381	48.0	10,561	54.5
Other components of equity	13	– 1,004	– 5.1	– 1,516	– 7.8
Equity attributable to shareholders of Henkel AG & Co. KGaA		**9,376**	**48.0**	**10,044**	**51.9**
Non-controlling interests	14	135	0.7	114	0.6
Equity		**9,511**	**48.7**	**10,158**	**52.5**
Pension obligations	15	960	4.9	820	4.2
Income tax provisions	16	66	0.3	78	0.4
Other provisions	16	265	1.4	335	1.7
Borrowings	17	2,454	12.6	1,386	7.2
Other financial liabilities	18	16	0.1	2	–
Other liabilities	19	18	0.1	14	0.1
Deferred tax liabilities	5	449	2.3	457	2.4
Non-current liabilities		**4,228**	**21.7**	**3,092**	**16.0**
Income tax provisions	16	189	1.0	172	1.0
Other provisions	16	1,264	6.5	1,454	7.5
Borrowings	17	1,320	6.7	1,230	6.4
Trade accounts payable	20	2,647	13.6	2,872	14.8
Other financial liabilities	18	111	0.6	87	0.4
Other liabilities	19	219	1.1	230	1.2
Income tax liabilities		27	0.1	20	0.1
Liabilities held for sale	9	9	–	29	0.1
Current liabilities		**5,786**	**29.6**	**6,094**	**31.5**
Total equity and liabilities		**19,525**	**100.0**	**19,344**	**100.0**

Consolidated statement of income

in million euros	Note	2012 [1]	%	2013	%	Change
Sales	22	**16,510**	**100.0**	**16,355**	**100.0**	**– 0.9 %**
Cost of sales [2]	23	– 8,778	– 53.2	– 8,546	– 52.3	– 2.6 %
Gross profit		**7,732**	**46.8**	**7,809**	**47.7**	**1.0 %**
Marketing, selling and distribution expenses [2]	24	– 4,302	– 26.1	– 4,242	– 25.9	– 1.4 %
Research and development expenses [2]	25	– 408	– 2.5	– 415	– 2.6	1.7 %
Administrative expenses [2]	26	– 785	– 4.7	– 842	– 5.1	7.3 %
Other operating income	27	109	0.7	122	0.7	11.9 %
Other operating charges	28	– 147	– 0.9	– 147	– 0.8	0.0 %
Operating profit (EBIT)		**2,199**	**13.3**	**2,285**	**14.0**	**3.9 %**
Interest income		50	0.3	65	0.4	30.0 %
Interest expense		– 232	– 1.4	– 178	– 1.1	– 23.3 %
Interest result		– 182	– 1.1	– 113	– 0.7	– 37.9 %
Investment result		1	–	–	–	– 100.0 %
Financial result	29	**– 181**	**– 1.1**	**– 113**	**– 0.7**	**– 37.6 %**
Income before tax		**2,018**	**12.2**	**2,172**	**13.3**	**7.6 %**
Taxes on income	30	– 492	– 3.0	– 547	– 3.4	11.2 %
Tax rate in %		*24.4*		*25.2*		
Net income		**1,526**	**9.2**	**1,625**	**9.9**	**6.5 %**
– Attributable to non-controlling interests	31	– 46	– 0.3	– 36	– 0.2	– 21.7 %
– Attributable to shareholders of Henkel AG & Co. KGaA		1,480	8.9	1,589	9.7	7.4 %
Earnings per ordinary share – basic and diluted	in euros	3.40		3.65		7.4 %
Earnings per preferred share – basic and diluted	in euros	3.42		3.67		7.3 %
Earnings per ordinary share – basic and diluted (2012 before IAS 19 revised)	in euros	3.47		3.65		5.2 %
Earnings per preferred share – basic and diluted (2012 before IAS 19 revised)	in euros	3.49		3.67		5.2 %

Additional voluntary information

in million euros		2012 [1]	2013	Change
EBIT (as reported)		**2,199**	**2,285**	**3.9 %**
One-time gains [3]		–	– 10	–
One-time charges [4]		12	82	–
Restructuring charges		124	159	–
Adjusted EBIT		**2,335**	**2,516**	**7.8 %**
Adjusted return on sales	***in %***	***14.1***	***15.4***	***1.3 pp***
Adjusted tax rate	***in %***	***24.8***	***25.1***	***0.3 pp***
Adjusted net income – Attributable to shareholders of Henkel AG & Co. KGaA		**1,573**	**1,764**	**12.1 %**
Adjusted earnings per ordinary share	**in euros**	**3.61**	**4.05**	**12.2 %**
Adjusted earnings per preferred share	**in euros**	**3.63**	**4.07**	**12.1 %**
Adjusted net income – Attributable to shareholders of Henkel AG & Co. KGaA (2012 before IAS 19 revised)		**1,603**	**1,764**	**10.0 %**
Adjusted earnings per ordinary share (2012 before IAS 19 revised)	**in euros**	**3.68**	**4.05**	**10.1 %**
Adjusted earnings per preferred share (2012 before IAS 19 revised)	**in euros**	**3.70**	**4.07**	**10.0 %**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).
[2] Restructuring expenses 2013: 159 million euros (2012: 124 million euros), of which: cost of sales 49 million euros (2012: 40 million euros); marketing, selling and distribution expenses 43 million euros (2012: 24 million euros); research and development expenses 1 million euros (2012: 2 million euros); administrative expenses 66 million euros (2012: 58 million euros).
[3] Gain from the sale of enzyme production technologies in the Laundry & Home Care business unit.
[4] Of which 35 million euros impairment of assets held for sale of our companies in Iran, and 20 million euros expense from dispute settlement with former joint venture partner.

Consolidated statement of comprehensive income

See Notes 15 and 21 for further explanatory information

in million euros	2012[1]	2013
Net income	1,526	1,625
Components to be reclassified to income:		
Exchange differences on translation of foreign operations	– 145	– 544
Gains from derivative financial instruments (hedge reserve per IAS 39)	79	17
Gains/losses from financial instruments in the available-for-sale category (Available-for-sale reserve)	3	1
Components not to be reclassified to income:		
Remeasurements from defined benefit plans	– 243	95
Other comprehensive income (net of taxes)	– 306	– 431
Total comprehensive income for the period	1,220	1,194
– Attributable to non-controlling interests	45	22
– Attributable to shareholders of Henkel AG & Co. KGaA	1,175	1,172

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Consolidated statement of changes in equity

See Notes 10 to 14 for further explanatory information

in million euros	Issued capital: Ordinary shares	Issued capital: Preferred shares	Capital reserve	Treasury shares	Retained earnings	Other components of equity: Currency translation	Other components of equity: Hedge reserve per IAS 39	Other components of equity: Available-for-sale reserve	Shareholders of Henkel AG & Co. KGaA	Non-controlling interests	Total
At January 1, 2012	260	178	652	– 93	8,494	– 662	– 278	– 2	8,549	121	8,670
Net income[1]	–	–	–	–	1,480	–	–	–	1,480	46	1,526
Other comprehensive income[1]	–	–	–	–	– 243	– 144	79	3	– 305	– 1	– 306
Total comprehensive income for the period	–	–	–	–	*1,237*	*– 144*	*79*	*3*	*1,175*	*45*	*1,220*
Dividends	–	–	–	–	– 342	–	–	–	– 342	– 27	– 369
Sale of treasury shares	–	–	–	2	3	–	–	–	5	–	5
Changes in ownership interest with no change in control	–	–	–	–	– 4	–	–	–	– 4	– 6	– 10
Other changes in equity	–	–	–	–	– 7	–	–	–	– 7	2	– 5
At December 31, 2012/ January 1, 2013	260	178	652	– 91	9,381	– 806	– 199	1	9,376	135	9,511
Net income	–	–	–	–	1,589	–	–	–	1,589	36	1,625
Other comprehensive income	–	–	–	–	95	– 530	17	1	– 417	– 14	– 431
Total comprehensive income for the period	–	–	–	–	*1,684*	*– 530*	*17*	*1*	*1,172*	*22*	*1,194*
Dividends	–	–	–	–	– 407	–	–	–	– 407	– 25	– 432
Sale of treasury shares	–	–	–	–	–	–	–	–	–	–	–
Changes in ownership interest with no change in control	–	–	–	–	– 95	–	–	–	– 95	– 18	– 113
Other changes in equity	–	–	–	–	– 2	–	–	–	– 2	–	– 2
At December 31, 2013	260	178	652	– 91	10,561	– 1,336	– 182	2	10,044	114	10,158

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Consolidated statement of cash flows

See Note 36 for further explanatory information

in million euros	2012	2013
Operating profit (EBIT)	**2,199**	**2,285**
Income taxes paid	– 588	– 534
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant and equipment [1]	409	420
Net gains / losses on disposal of intangible assets and property, plant and equipment, and from divestments	– 12	– 35
Change in inventories	64	– 128
Change in trade accounts receivable	– 37	– 101
Change in other assets	– 18	– 6
Change in trade accounts payable	256	342
Change in other liabilities and provisions	361	– 127
Cash flow from operating activities	**2,634**	**2,116**
Purchase of intangible assets and property, plant and equipment	– 422	– 436
Acquisition of subsidiaries and other business units	– 113	– 31
Purchase of associated companies and joint ventures held at equity	– 5	–
Proceeds on disposal of subsidiaries and other business units	3	24
Proceeds on disposal of intangible assets and property, plant and equipment	58	62
Cash flow from investing activities	**– 479**	**– 381**
Dividends paid to shareholders of Henkel AG & Co. KGaA	– 342	– 407
Dividends paid to non-controlling shareholders	– 27	– 25
Interest received	213	235
Interest paid	– 358	– 286
Dividends and interest paid and received	*– 514*	*– 483*
Repayment of bonds	–	– 1,000
Other changes in borrowings	– 131	– 59
Allocation to pension funds	– 247	– 62
Other changes in pension obligations	– 102	– 75
Purchase of non-controlling interests with no change of control	– 10	– 69
Other financing transactions [2]	– 1,854	– 101
Cash flow from financing activities	**– 2,858**	**– 1,849**
Net change in cash and cash equivalents	– 703	– 114
Effect of exchange rates on cash and cash equivalents	– 39	– 63
Change in cash and cash equivalents	**– 742**	**– 177**
Cash and cash equivalents at January 1	1,980	1,238
Cash and cash equivalents at December 31	**1,238**	**1,061**
Less cash and cash equivalents classified as “held for sale”	–	10
Cash and cash equivalents at December 31 (Consolidated statement of financial position)	1,238	1,051

[1] Of which impairment in fiscal 2013: 33 million euros (fiscal 2012: 12 million euros).
[2] Other financing transactions in fiscal 2013 include payments of – 1,482 million euros for the purchase of short-term securities and time deposits (fiscal 2012: – 1,849 million euros).

Additional voluntary information
Reconciliation to free cash flow

in million euros	2012	2013
Cash flow from operating activities	2,634	2,116
Purchase of intangible assets and property, plant and equipment	– 422	– 436
Proceeds on disposal of intangible assets and property, plant and equipment	58	62
Net interest paid	– 145	– 51
Other changes in pension obligations	– 102	– 75
Free cash flow	**2,023**	**1,616**

Group segment report by business unit[1]

in million euros	Laundry & Home Care	Beauty Care	Adhesives for Consumers, Craftsmen and Building	Industrial Adhesives	Total Adhesive Technologies	Operating business units total	Corporate	Henkel Group
Sales 2013	**4,580**	**3,510**	**1,924**	**6,193**	**8,117**	**16,207**	**148**	**16,355**
Proportion of Group sales	28 %	21 %	12 %	38 %	50 %	99 %	1 %	100 %
Sales 2012	4,556	3,542	1,988	6,268	8,256	16,355	155	16,510
Change from previous year	0.5 %	– 0.9 %	– 3.2 %	– 1.2 %	– 1.7 %	– 0.9 %	– 4.5 %	– 0.9 %
After adjusting for foreign exchange	5.7 %	2.8 %	0.9 %	3.4 %	2.8 %	3.6 %	–	3.5 %
Organic	5.7 %	3.0 %	2.5 %	2.8 %	2.7 %	3.6 %	–	3.5 %
EBIT 2013	**682**	**474**	**286**	**985**	**1,271**	**2,426**	**– 141**	**2,285**
EBIT 2012	621	483	280	911	1,191	2,296	– 97	2,199
Change from previous year	9.7 %	– 1.9 %	2.2 %	8.1 %	6.7 %	5.7 %	–	3.9 %
Return on sales (EBIT) 2013	**14.9 %**	**13.5 %**	**14.9 %**	**15.9 %**	**15.7 %**	**15.0 %**	**–**	**14.0 %**
Return on sales (EBIT) 2012	13.6 %	13.6 %	14.1 %	14.5 %	14.4 %	14.0 %	–	13.3 %
Adjusted EBIT 2013	**714**	**525**	**311**	**1,059**	**1,370**	**2,609**	**– 93**	**2,516**
Adjusted EBIT 2012	659	514	287	959	1,246	2,419	– 84	2,335
Change from previous year	8.5 %	2.1 %	8.3 %	10.4 %	9.9 %	7.8 %	–	7.8 %
Adjusted return on sales (EBIT) 2013	**15.6 %**	**15.0 %**	**16.2 %**	**17.1 %**	**16.9 %**	**16.1 %**	**–**	**15.4 %**
Adjusted return on sales (EBIT) 2012	14.5 %	14.5 %	14.4 %	15.3 %	15.1 %	14.8 %	–	14.1 %
Capital employed 2013[2]	**2,321**	**2,007**	**922**	**5,830**	**6,752**	**11,080**	**59**	**11,138**
Capital employed 2012[2]	2,409	2,084	1,017	6,188	7,204	11,697	54	11,751
Change from previous year	– 3.7 %	– 3.7 %	– 9.3 %	– 5.8 %	– 6.3 %	– 5.3 %	–	– 5.2 %
Return on capital employed (ROCE) 2013	**29.4 %**	**23.6 %**	**31.0 %**	**16.9 %**	**18.8 %**	**21.9 %**	**–**	**20.5 %**
Return on capital employed (ROCE) 2012	25.8 %	23.2 %	27.5 %	14.7 %	16.5 %	19.6 %	–	18.7 %
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant, equipment 2013	**121**	**56**	**43**	**182**	**225**	**402**	**18**	**420**
of which impairment losses 2013	**16**	**1**	**7**	**8**	**15**	**32**	**1**	**33**
of which write-ups 2013	**–**	**–**	**1**	**4**	**5**	**5**	**–**	**5**
Amortization / depreciation / impairment / write-ups of intangible assets and property, plant, equipment 2012	107	54	44	187	231	393	17	409
of which impairment losses 2012	4	–	1	6	7	11	1	12
of which write-ups 2012	–	–	–	1	1	1	–	1
Capital expenditures (excl. financial assets) 2013	**158**	**101**	**72**	**126**	**198**	**457**	**8**	**465**
Capital expenditures (excl. financial assets) 2012	170	74	77	188	265	509	7	516
Operating assets 2013[3]	**4,111**	**3,164**	**1,434**	**7,105**	**8,538**	**15,813**	**488**	**16,301**
Operating liabilities 2013	**1,626**	**1,355**	**562**	**1,696**	**2,259**	**5,240**	**429**	**5,669**
Net operating assets 2013[3]	**2,484**	**1,809**	**871**	**5,408**	**6,279**	**10,573**	**59**	**10,632**
Operating assets 2012[3]	3,938	2,982	1,462	7,298	8,759	15,679	411	16,090
Operating liabilities 2012	1,349	1,085	495	1,540	2,035	4,468	357	4,826
Net operating assets 2012[3]	2,589	1,897	966	5,758	6,725	11,211	54	11,265

[1] Calculated on the basis of units of 1,000 euros.
[2] Including goodwill at cost prior to any accumulated impairment in accordance with IFRS 3.79 (b).
[3] Including goodwill at net book value.

Key financials by region [1]

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Total Regions	Corporate	Henkel Group
Sales [2] 2013	**5,580**	**3,034**	**1,080**	**2,928**	**1,061**	**2,524**	**16,207**	**148**	**16,355**
Sales [2] 2012	5,610	2,986	1,077	3,023	1,062	2,597	16,355	155	16,510
Change from previous year	– 0.5 %	1.6 %	0.3 %	– 3.2 %	– 0.1 %	– 2.8 %	– 0.9 %	–	– 0.9 %
After adjusting for foreign exchange	0.1 %	6.0 %	17.4 %	1.1 %	8.7 %	3.3 %	3.6 %	–	3.5 %
Organic	0.2 %	6.0 %	17.6 %	1.0 %	8.7 %	3.3 %	3.6 %	–	3.5 %
Proportion of Group sales 2013	**34 %**	**19 %**	**7 %**	**18 %**	**6 %**	**15 %**	**99 %**	**1 %**	**100 %**
Proportion of Group sales 2012	34 %	18 %	7 %	18 %	6 %	16 %	99 %	1 %	100 %
Operating profit (EBIT) 2013	**1,021**	**459**	**34**	**497**	**74**	**340**	**2,426**	**– 141**	**2,285**
Operating profit (EBIT) 2012	811	425	103	456	83	417	2,296	– 97	2,199
Change from previous year	25.8 %	8.1 %	– 66.7 %	8.9 %	– 10.8 %	– 18.3 %	5.7 %	–	3.9 %
After adjusting for foreign exchange	26.1 %	13.7 %	– 43.8 %	12.8 %	2.0 %	– 13.9 %	9.9 %	–	7.3 %
Return on sales (EBIT) 2013	**18.3 %**	**15.1 %**	**3.2 %**	**17.0 %**	**7.0 %**	**13.5 %**	**15.0 %**	**–**	**14.0 %**
Return on sales (EBIT) 2012	14.5 %	14.2 %	9.6 %	15.1 %	7.8 %	16.0 %	14.0 %	–	13.3 %

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

In 2013, the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,247 million euros (previous year: 2,254 million euros). Sales realized by the affiliated companies domiciled in the USA in 2013 amounted to 2,700 million euros (previous year: 2,787 million euros). In fiscal 2012 and 2013, no individual customer accounted for more than 10 percent of total sales.

Of the total non-current assets disclosed for the Henkel Group at December 31, 2013 (excluding financial instruments and deferred tax claims) amounting to 10,611 million euros (previous year: 11,083 million euros), 1,156 million euros (previous year: 1,068 million euros) 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 at December 31, 2013 amounted to 5,438 million euros (previous year: 5,727 million euros).

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

General information

The consolidated financial statements of Henkel AG & Co. KGaA, Düsseldorf, as of December 31, 2013 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as adopted per Regulation number 1606/2002 of the European Parliament and the Council, on the application of international accounting standards in 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, 2013, 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. The Management Board of Henkel Management AG – which is the Personally Liable Partner of Henkel AG & Co. KGaA – compiled the consolidated financial statements on January 30, 2014 and approved them for forwarding to the Supervisory Board and for publication.

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 and pension obligations are measured using the projected unit credit method. The functional currency of Henkel AG & Co. KGaA and the reporting currency of the Group 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, 2013 include seven German and 166 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.

The following table shows the changes to the scope of consolidation in fiscal 2013:

Scope of consolidation

At January 1, 2013	**178**
Additions	7
Mergers	– 2
Disposals	– 9
At December 31, 2013	**174**

The changes in the scope of consolidation have had no effect on the main items of the consolidated financial statements.

Subsidiaries which are of secondary importance to the Group and to the presentation of a true and fair view of our net assets, financial position and results of operations due to their inactivity or low level of activity are generally not included in the consolidated financial statements. The total assets of these companies represent less than 1 percent of the Group's total assets; their total sales and income net of taxes are also less than 1 percent of the Group totals.

Acquisitions and divestments

The acquisitions and divestments in fiscal 2013 had no material effect on the business and organizational structure of Henkel, nor on our net assets, financial position, or results of operations.

Acquisitions

On June 6, 2013, we spent 3 million euros acquiring the outstanding non-controlling interests in Henkel Kenya Ltd., Nairobi, Kenya, increasing our shareholding from 80 percent to 100 percent. The difference between the previously held share of net assets and the purchase price has been recognized in retained earnings.

Effective September 4, 2013, we completed an acquisition in the professional hair care segment in South Africa. The purchase price paid was 4 million euros. This resulted in the recognition of goodwill amounting to 2 million euros.

On December 11, 2013, we spent 66 million euros acquiring the outstanding non-controlling interests in OOO Henkel Bautechnik, Moscow, Russia. A performance-related component of consideration was also agreed under which we will pay a maximum of 44 million euros to the seller within the next four years. Our shareholding has increased from 66 percent to 100 percent. The difference between the previously held share of net assets and the purchase price has been recognized in retained earnings.

Effective December 11, 2013, we completed the full acquisition of a production facility for hair styling products in Russia from Wellchem Holding GmbH, Austria. The purchase price paid was 27 million euros. This resulted in the recognition of goodwill amounting to 9 million euros.

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

The following table shows the acquisitions of subsidiaries in fiscal 2013. The acquisitions indicated, taken both individually and in sum, have not exerted any material effect on the net assets, financial position or results of operations of the Group.

Acquisitions 2013

January 1 to December 31 in million euros	Carrying amount	Adjustments	Fair value
Assets	25	– 5	20
Non-current assets	25	– 5	20
Current assets	–	–	–
Cash and cash equivalents	–	–	–
Liabilities	–	–	–
Non-current liabilities and provisions	–	–	–
Current liabilities and provisions	–	–	–
Net assets	25	– 5	20

Goodwill 2013

in million euros	Fair value
Purchase price (paid in cash)	31
Fair value of non-controlling interests	–
Less net assets	– 20
Goodwill	11

Divestments

Effective January 10, 2013, we sold Chemofast Anchoring GmbH, Willich, Germany, for 26 million euros. As of December 31, 2012, we reported the assets and liabilities of the company as “held for sale.” The sale transaction included the transfer of 4 million euros in cash to the buyer. We recognized the gain of 9 million euros from the deconsolidation under other operating income.

Disposal and deconsolidation effects 2013

January 1 to December 31 in million euros	Chemofast Anchoring GmbH	Other companies	Total
Disposal effects			
Non-current assets	11	7	18
Current assets	5	–	5
Cash and cash equivalents	4	2	6
Non-current liabilities and provisions	– 3	–	– 3
Current liabilities and provisions	–	– 1	– 1
Net assets	17	8	25
Proportion of net income attributable to shareholders of Henkel AG & Co. KGaA	17	8	25
Total consideration	26	4	30
Transaction costs	–	–	–
Accumulated currency translation gains (+)/loss (–)	–	– 2	– 2
Deconsolidation gain (+)/loss (–)	9	– 2	7

Consolidation methods

The 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.

The purchase method is used for capital consolidation. With business combinations, therefore, all hidden reserves and hidden charges in the entity acquired are revalued at the time of acquisition, and fully reflected at fair value, and all identifiable intangible assets are separately disclosed if they are clearly separable or if their recognition arises from a contractual or other legal right. Any difference arising between the cost of acquisition and the (share of) net assets after purchase price allocation is recognized as goodwill. The goodwill of subsidiaries is measured in the functional currency of the subsidiary.

Entities acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the respective parent company's investment in them against their assets and liabilities. Contingent consideration is recognized at fair value as of the date of first-time consolidation. Subsequent changes in value do not result in an adjustment to the valuation at the time of acquisition. (Incidental) costs related to the acquisition of subsidiaries are not included in the purchase price. Instead, they are recognized through profit and loss in other operating charges in the period in which they occur.

In the recognition of acquisitions of less than 100 percent, non-controlling interests are measured at the fair value of the share of net assets that they represent. We do not apply the option of measuring non-controlling 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 (share of) 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.

Companies recognized at equity

Associated companies and joint ventures are recognized at equity.

An associated company is a company over which the Group can exercise material influence on the financial and operating policies without controlling it. Material influence is generally assumed when the Group holds 20 percent or more of the voting rights. Where a Group company conducts transactions with an associated company or a joint venture, the resulting profits or losses are eliminated in accordance with the share of the Group in that company.

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 generally 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. Equity items are recognized at historical exchange rates. 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.

In the subsidiaries' annual financial statements, transactions in foreign currencies are converted at the rates prevailing at the time of the transaction. 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:

Currencies

		Average exchange rate		Exchange rate on December 31	
	ISO code	2012	2013	2012	2013
Chinese yuan	CNY	8.10	**8.16**	8.22	**8.35**
Mexican peso	MXN	16.90	**16.97**	17.19	**18.07**
Polish zloty	PLN	4.18	**4.20**	4.07	**4.15**
Russian ruble	RUB	39.93	**42.34**	40.33	**45.32**
Turkish lira	TRY	2.31	**2.53**	2.36	**2.96**
US dollar	USD	1.28	**1.33**	1.32	**1.38**

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	(Depreciated) 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
“Fair value option”	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, which are basically unchanged from the previous year, 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 pages 140 to 152) 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 the effect is material and 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.

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 based on past experience and 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 particular in the explanatory notes on taxes on income (Note 30 on pages 155 to 157), intangible assets (Note 1 on pages 119 to 122), pension obligations (Note 15 on pages 128 to 136), income tax provisions and other provisions (Note 16 on page 137), financial instruments (Note 21 on pages 140 to 152) and share-based payment plans (Note 33 on pages 158 and 159).

Essentially, discretionary judgments are made in respect of the following two areas:
- The US dollar liabilities of Henkel of America, Inc., Wilmington, USA, are set off against sureties of Henkel US LLC, Wilmington, USA, 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 as explained in Note 1 on pages 119 to 122.

Application of IAS 8 to accounting policies

In application of IAS 8 paragraph 28 ff., the following information is reported:

In June 2011, the International Accounting Standards Board (IASB) published amendments to IAS 19 "Employee Benefits" (IAS 19, revised 2011). IAS 19 revised replaces the expected income from plan assets and the interest expense on the pension obligations with a uniform net interest component. The announcement is applicable for fiscal years beginning on or after January 1, 2013. IAS 19 revised requires retrospective application and the presentation of the effects of the first-time application on the opening balance at January 1, 2012. The retrospective adjustment led to an increase of 40 million euros in interest expense for fiscal 2012. Actuarial gains increased accordingly by 40 million euros. Following application of IAS 19 revised, the interest result for the 2012 fiscal year amounts to –182 million euros (prior to adjustment: –142 million euros).

In addition, IAS 19 revised provides for recognition in profit and loss of non-vested past-service costs as they occur. We did not adjust our pension obligations retrospectively for the 2012 fiscal year as there was no material effect on the presentation of the consolidated financial statements.

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

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

	Significance
IAS 1 (Amendment) "Presentation of Items of Other Comprehensive Income"	relevant
IAS 19 revised "Employee Benefits"	relevant
IAS 36 (Amendment) "Impairment of Assets"	relevant
IFRS 7 (Amendment) "Disclosures – Offsetting Financial Assets and Liabilities"	relevant
IFRS 13 "Fair Value Measurement"	relevant
General standard "Improvements to IFRS 2009–2011"	relevant

- In June 2012, the IASB published amendments to IAS 1 "Presentation of Financial Statements." In the future, items of other comprehensive income in the consolidated statement of comprehensive income which are later reclassified ("recycled") to the statement of income must be presented separately from items of other comprehensive income which will never be reclassified.
- In June 2011, the IASB published amendments to IAS 19 "Employee Benefits" (IAS 19, revised 2011). The impact on the consolidated financial statements is presented on page 116.
- The Amendment to IAS 36 includes revisions to the disclosure requirements if the recoverable amount for the impaired assets was determined on the basis of fair value less costs of disposal. The change will be early adopted.
- In December 2011, the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures." Disclosures with respect to offsetting financial assets and liabilities encompass the duty to disclose both netted financial instruments and any unnetted financial instruments that are subject to an enforceable master netting agreement or similar agreement.
- IFRS 13 "Fair Value Measurement," which was published in May 2011, governs the measurement of fair value. Fair value is defined as exit price, meaning the price that would be realized in the sale of an asset or the price that would have to be paid to transfer an obligation.
- Adjustments arising from the annual improvement cycle are intended to clarify existing regulations. They also provide for changes that affect accounting, methods, valuation and the information reported in the notes to the consolidated financial statements. The standards affected are IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1.

The first-time application of the amended standards had a material impact on the presentation of our consolidated financial statements only in connection with IAS 19 revised.

Accounting regulations not applied in advance of their effective date

The following standards 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 been applied early:

Accounting regulations not applied in advance of their effective date

	Mandatory for fiscal years beginning on or after
IAS 28 (Amendment) "Investments in Associates and Joint Ventures"	January 1, 2014
IAS 32 (Amendment) "Offsetting Financial Assets and Liabilities"	January 1, 2014
IAS 39 (Amendment) "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRS 10 "Consolidated Financial Statements"	January 1, 2014
IFRS 11 "Joint Arrangements"	January 1, 2014
IFRS 12 "Disclosure of Interest in Other Entities"	January 1, 2014
IFRS 10 (Amendment), IFRS 11 (Amendment) and IFRS 12 (Amendment) "Transition Guidance"	January 1,2014

- In December 2011, the IASB published amendments to IAS 32 "Financial Instruments: Presentation." The amendment to IAS 32 explains and clarifies the criteria for offsetting financial assets and financial liabilities in the statement of financial position. The amendment to IAS 32 is mandatory for fiscal years beginning on or after January 1, 2014.
- In May 2011, the IASB published the new standards IFRS 10 "Consolidated Financial Statements," IFRS 11 "Joint Arrangements," and IFRS 12 "Disclosure of Interest in Other Entities," as well as amendments to IAS 28 "Investments in Associates." Under the new concept of IFRS 10, control exists when the potential parent company holds decision power over the potential subsidiary based on voting rights or other rights, it is exposed to positive and negative variability in returns from the subsidiary, and these returns may be affected by the decision power held by the parent. Under the new concept of IFRS 11, a distinction is made in a joint arrangement as to whether it is a joint operation or a joint venture. In a joint operation, the individual rights and obligations are accounted for proportionately in the consolidated financial statements. In contrast, joint ventures are represented in the consolidated financial statements using the equity method. As part of the adoption of IFRS 11, adjustments were also made to IAS 28. The new IFRS 12 expands the disclosure requirements for interests in other entities. The

amendments relate to clarifications and additional changes to ease transition to IFRS 10, IFRS 11, and IFRS 12. The new standards and the amendments to standards must be applied beginning January 1, 2014. The amendments will have no impact on the scope of consolidation.
- With the amendment to IAS 39 in June 2013, a derivative maintains its designation as a hedging instrument under hedge accounting even if it is novated to a central counterparty as the result of legal requirements, provided certain criteria are met.

These new standards and amendments to existing standards will be applied by Henkel from fiscal 2014 or later. Unless otherwise indicated, we expect the future application of the aforementioned regulations not to have a significant impact on the presentation of the financial statements.

Accounting regulations not yet adopted into EU law
In fiscal 2013, the IASB issued the following standards and amendments to existing 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 on or after
IAS 19 (Amendment) "Defined Benefit Plans: Employee Contributions"	January 1, 2015
IFRS 9 "Financial Instruments"	open
IFRS 7 (Amendment) and IFRS 9 (Amendment) "Mandatory Effective Date and Transition Disclosure"	open
IFRIC 21 "Levies"	January 1, 2014
General standard "Improvements to IFRS 2010–2012"	January 1, 2015
General standard "Improvements to IFRS 2011–2013"	January 1, 2015

These standards and amendments to existing standards will be applied by Henkel starting in fiscal 2014 or later.

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 depreciated or amortized using the straight-line method on the basis of estimated useful lives. The useful life estimates are reviewed annually. If facts or circumstances indicate the need for impairment, the recoverable amount is determined. It is measured as the higher of the fair value less costs to sell (net realizable value) and the value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts, and are 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
Plant facilities	10 to 25
Machinery	7 to 10
Office 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, 2012	1,248	1,538	174	6,723	9,683
Acquisitions	16	14	–	60	90
Divestments	–	–	–	–	–
Additions	–	5	24	–	29
Disposals	–	– 7	–	–	– 7
Reclassifications into assets held for sale[1]	1	–	–	– 11	– 10
Reclassifications	–	4	3	–	7
Translation differences	– 23	– 17	– 1	– 100	– 141
At December 31, 2012 / January 1, 2013	1,242	1,537	200	6,672	9,651
Acquisitions	–	1	–	11	12
Divestments	–	–	–	– 2	– 2
Additions	–	9	23	–	32
Disposals	–	– 22	– 5	–	– 27
Reclassifications into assets held for sale	–	–	–	– 5	– 5
Reclassifications	–	3	1	–	4
Translation differences	– 47	– 79	– 4	– 309	– 439
At December 31, 2013	1,195	1,449	215	6,367	9,226

[1] Of which: 1 million euros acquisition costs and 0 million euros write-downs arising from reclassification of assets held for sale, as disposal is no longer intended.

Accumulated amortization/impairment

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, 2012	13	789	101	11	914
Divestments	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	86	20	–	106
Impairment losses	–	–	–	–	–
Disposals	–	– 7	–	–	– 7
Reclassifications into assets held for sale	–	–	–	–	–
Reclassifications	–	–	–	–	–
Translation differences	–	– 7	–	–	– 7
At December 31, 2012 / January 1, 2013	13	861	121	11	1,006
Divestments	–	–	–	–	–
Write-ups	– 5	–	–	–	– 5
Scheduled amortization	–	81	20	–	101
Impairment losses	8	–	–	5	13
Disposals	–	– 21	– 5	–	– 26
Reclassifications into assets held for sale	–	–	–	– 2	– 2
Reclassifications	–	– 1	1	–	–
Translation differences	–	– 48	– 2	–	– 50
At December 31, 2013	16	872	135	14	1,037

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, 2013	1,179	577	80	6,353	8,189
At December 31, 2012	1,229	676	79	6,661	8,645

Goodwill represents the future economic benefit of assets that are acquired through business combinations and not individually identifiable and separately recognized, as well as expected synergies, and is recognized at cost. Trademarks and other rights acquired for valuable consideration are stated at purchase cost, while internally generated software is stated at manufacturing cost.

Additions to internally generated intangible assets mostly reflect investments in consolidating and optimizing our IT system environment for managing business processes in the Asia-Pacific region.

The change in goodwill resulting from acquisitions and divestments made in the fiscal year is presented in the section “Acquisitions and divestments” on pages 111 and 112.

Goodwill as well as trademarks and other rights with indefinite useful lives are subjected to an impairment test at least once a year and also when indicators of impairment are present ("impairment only" approach).

Amortization and impairment of trademark rights and other rights are recognized as selling expenses. Amortization and impairment of other intangible assets are allocated to the relevant functions in the consolidated statement of income.

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 at book value at the reporting date. The description of the cash-generating units can be found in the notes to the consolidated financial statements, Note 34 on pages 159 and 160 and in the Group management report on pages 78 to 89.

Book values – Goodwill

Cash-generating units (summarized) in million euros	December 31, 2012 Goodwill	December 31, 2013 Goodwill
Laundry	689	653
Home Care	788	753
Total Laundry & Home Care	**1,477**	**1,406**
Branded Consumer Goods	1,058	1,026
Hair Salon	100	98
Total Beauty Care	**1,158**	**1,124**
Industrial Adhesives	3,632	3,452
Adhesives for Consumers, Craftsmen and Building	394	371
Total Adhesive Technologies	**4,026**	**3,823**

We assess goodwill impairment and impairment to trademarks and other rights according to the fair-value-less-costs-to-sell approach on the basis of future estimated cash flows which are obtained from corporate budgets. The determination of fair value (before deduction of costs to sell) is allocated to valuation level 3 (see Note 21 on pages 140 to 152). 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 range 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 1.32. Taking into account specific tax effects, the cash flows in all cash-generating units are discounted at different rates reflecting the weighted average cost of capital (WACC) in each business unit: 6.00 percent after tax for Laundry & Home Care and Beauty Care, and 7.75 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 2013 amounted to 1,782 million euros (previous year: 1,880 million euros), while goodwill at Transport, Metal, General Industry and Electronics had a value of 1,670 million euros in 2013 (previous year: 1,752 million euros).

In the Laundry & Home Care business unit, we have assumed an increase in sales during the three-year detailed forecasting horizon of 3 to 4 percent per year, with a slight increase in market share. Sales growth in the Beauty Care business unit over the three-year forecasting horizon is budgeted at around 4 percent per annum. Here, too, we expect a slight increase in market share. Sales in the Adhesive Technologies business unit are expected to grow by around 6 percent per annum on average over the detailed three-year forecasting horizon, and thus above the market average.

In all the business units, we assume that a future increase in the cost of raw materials can be extensively offset by cost reduction measures in purchasing and by passing the increase on to our customers, as well as through the implementation of efficiency improvement measures. Given our continued pro-active management of the portfolio, we anticipate achieving higher gross margins in all our business units.

The impairment tests revealed sufficient impairment buffers so that, as in the previous year, no impairment of goodwill was required.

Trademark rights and other rights with indefinite useful lives are presented in the following table.

Book values – Trademark rights and other rights

by business area (summarized) in million euros	December 31, 2012 Trademark and other rights with indefinite useful lives	December 31, 2013 Trademark and other rights with indefinite useful lives
Laundry	381	359
Home Care	244	234
Total Laundry & Home Care	**625**	**593**
Branded Consumer Goods	460	442
Hair Salon	13	13
Total Beauty Care	**473**	**455**
Industrial Adhesives	48	51
Adhesives for Consumers, Craftsmen and Building	83	80
Total Adhesive Technologies	**131**	**131**

The trademark rights with indefinite useful lives with a net book value of 1,179 million euros (previous year: 1,229 million euros) 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 composed of 40 million euros (previous year: 42 million euros) for our Packaging, Consumer Goods and Construction Adhesives businesses, and 40 million euros (previous year: 41 million euros) for our Transport, Metal, General Industry and Electronics businesses.

Our annual impairment tests on trademark rights and other rights with indefinite useful lives with a total value of 1,179 million euros (previous year: 1,229 million euros) resulted in impairment losses of 8 million euros (previous year: 0 million euros) in our Laundry & Home Care business unit. An impairment reversal of 5 million euros was made in fiscal 2013 for trademark rights in our Adhesive Technologies business unit.

The company also intends to continue using the brands disclosed as having definite useful lives. No impairment losses were registered with respect to trademark rights and other rights with definite useful lives in 2013.

(2) Property, plant and equipment

Cost

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2012	1,998	2,668	927	227	5,820
Acquisitions	–	4	–	–	4
Divestments	–	–	–	–	–
Additions	32	106	66	189	393
Disposals	– 23	– 107	– 72	– 1	– 203
Reclassifications into assets held for sale	– 5	– 7	– 2	–	– 14
Reclassifications	46	109	35	– 197	– 7
Translation differences	– 10	– 10	– 5	– 2	– 27
At December 31, 2012 / January 1, 2013	2,038	2,763	949	216	5,966
Acquisitions	10	6	–	1	17
Divestments	– 8	– 15	– 4	–	– 27
Additions	21	86	61	236	404
Disposals	– 37	– 92	– 91	– 4	– 224
Reclassifications into assets held for sale	– 2	–	–	–	– 2
Reclassifications	44	109	30	– 188	– 5
Translation differences	– 66	– 80	– 31	– 10	– 187
At December 31, 2013	2,000	2,777	914	251	5,942

Accumulated depreciation/impairment

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2012	913	1,933	710	–	3,556
Divestments	–	–	–	–	–
Write-ups	–	– 1	–	–	– 1
Scheduled depreciation	58	148	86	–	292
Impairment losses	2	10	–	–	12
Disposals	– 16	– 100	– 71	–	– 187
Reclassifications into assets held for sale	– 2	– 4	– 1	–	– 7
Reclassifications	–	–	–	–	–
Translation differences	– 1	– 9	– 3	–	– 13
At December 31, 2012 / January 1, 2013	954	1,977	721	–	3,652
Divestments	– 4	– 12	– 3	–	– 19
Write-ups	–	–	–	–	–
Scheduled depreciation	57	152	82	–	291
Impairment losses	3	13	4	–	20
Disposals	– 27	– 89	– 89	–	– 205
Reclassifications into assets held for sale	– 2	–	–	–	– 2
Reclassifications	–	– 1	1	–	–
Translation differences	– 20	– 48	– 21	– 1	– 90
At December 31, 2013	961	1,992	695	– 1	3,647

Net book values

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At December 31, 2013	1,039	785	219	252	2,295
At December 31, 2012	1,084	786	228	216	2,314

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 page 62 in the Group management report.

At December 31, 2013, property, plant and equipment with a carrying amount of 1 million euros had been pledged as security for existing liabilities. The periods over which the assets are depreciated are based on their estimated useful lives as set out on page 119. Scheduled depreciation and impairment losses recognized are allocated to the relevant functions in the consolidated statement of income.

Of the impairment losses amounting to 20 million euros, structure optimization measures attributable to the Laundry & Home Care business unit accounted for 4 million euros. In the Adhesive Technologies business unit, impairment losses of 11 million euros were recognized as a result of production optimization measures.

(3) Other financial assets

Analysis

	December 31, 2012			December 31, 2013		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Receivables from associated companies	–	1	1	–	–	–
Financial receivables from third parties	15	44	59	15	17	32
Derivative financial instruments	204	54	258	95	57	152
Investments accounted for at equity	6	–	6	5	–	5
Other investments	18	–	18	18	–	18
Receivable from Henkel Trust e.V.	–	20	20	–	120	120
Securities and time deposits	–	2,241	2,241	–	2,380	2,380
Financial collateral provided	–	4	4	–	26	26
Sundry financial assets	15	79	94	15	64	79
Total	**258**	**2,443**	**2,701**	**148**	**2,664**	**2,812**

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

The receivable from Henkel Trust e.V. relates 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 fixed-interest and floating-interest bonds. All the bonds are publicly listed and can be sold at short notice.

Sundry non-current financial assets include among others receivables from employees. The sundry current financial assets include the following:

- Receivables from sureties and guarantee deposits amounting to 34 million euros (previous year: 38 million euros)
- Receivables from suppliers amounting to 9 million euros (previous year: 13 million euros)
- Receivables from employees amounting to 11 million euros (previous year: 9 million euros)

(4) Other assets

Analysis

	December 31, 2012			December 31, 2013		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Tax receivables	7	117	124	3	136	139
Payments on account	–	20	20	–	17	17
Overfunding of pension obligations	4	–	4	3	–	3
Reimbursement rights related to employee benefits	84	5	89	89	7	96
Accruals	6	56	62	20	59	79
Sundry other assets	16	18	34	1	22	23
Total	**117**	**216**	**333**	**116**	**241**	**357**

The reimbursement rights related to employee benefits pertain to defined benefit pension obligations. The reimbursement rights and the pension obligations are reported unnetted in the statement of financial position per IAS 19.

(5) Deferred taxes

Deferred taxes are recognized for temporary differences between the valuation of an asset or a liability in the financial statements and its tax base, for tax losses carried forward and for unused tax credits. This also applies to temporary differences in valuation arising through acquisitions, with the exception of goodwill.

Deferred tax liabilities on taxable temporary differences related to shares in subsidiaries are recognized to the extent that a reversal of this difference is expected in the foreseeable future.

Changes in the deferred taxes in the statement of financial position result in deferred tax expenses or income unless the underlying item is directly recognized in equity. For items recognized directly in equity, the associated deferred taxes are also recognized in equity.

The valuation, recognition and breakdown of deferred taxes in respect of the various items in the statement of financial position are disclosed under Note 30 (“Taxes on income”) on pages 155 to 157.

(6) Inventories

In accordance with IAS 2, reported under inventories are those assets that are intended to be sold in the ordinary course of business (finished products and merchandise), those in the process of production for such sale (unfinished products) and those to be utilized or consumed in the course of manufacture or the rendering 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 amortization/depreciation. 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, at year-end, the carrying amounts of the inventories are above their realizable fair values. The resultant valuation allowance amounted to 125 million euros (previous year: 119 million euros). The carrying amount of inventories recognized at fair value less costs to sell amounted to 260 million euros. The carrying amount of inventories pledged as security for liabilities amounted to 30 million euros.

Analysis of inventories

in million euros	December 31, 2012	December 31, 2013
Raw materials and supplies	471	431
Work in progress	62	56
Finished products and merchandise	942	1,000
Payments on account for merchandise	3	7
Total	**1,478**	**1,494**

(7) Trade accounts receivable

Trade accounts receivable amounted to 2,370 million euros (previous year: 2,021 million euros). They are all due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Overall, we recognized total valuation allowances of 17 million euros (previous year: 30 million euros).

Trade accounts receivable

in million euros	December 31, 2012	December 31, 2013
Trade accounts receivable, gross	2,130	2,468
less: cumulative valuation allowances on trade accounts receivable	109	98
Trade accounts receivable, net	**2,021**	**2,370**

Development of valuation allowances on trade accounts receivable

in million euros	2012	2013
Valuation allowances at January 1	**100**	**109**
Additions	27	13
Transfer of receivables	– 17	– 20
Currency translation effects	– 1	– 4
Valuation allowances at December 31	**109**	**98**

(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 decreased compared to the previous year, from 1,238 million euros to 1,051 million euros. Of this figure, 873 million euros (previous year: 913 million euros) relate to cash and 178 million euros (previous year: 325 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows.

(9) Assets and liabilities 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 and amortization and are instead recognized at the lower of carrying amount and fair value less costs to sell (level 3), which is determined by the current price negotiations with potential buyers.

Compared to December 31, 2012, assets held for sale declined by 2 million euros to 36 million euros. Liabilities held for sale rose from 9 million euros to 29 million euros in the same period. This increase is due in part to the reclassification of the assets and liabilities of our companies in Iran as assets and liabilities held for sale. We intend to sell the companies within twelve months. The impairments resulting from the measurement of the assets at the lower of carrying amount and fair value were recognized through profit and loss. An additional charge is also expected to be incurred as a result of the deconsolidation of the two companies. We expect the entire expense connected with the sale to be around 55 million euros. The planned sale marks our complete withdrawal from Iran.

In addition, our assets held for sale increased as a result of the reclassification of the assets of a non-core activity in the Adhesive Technologies business unit. This was partially offset by the transfer to the buyer of the assets of Chemofast Anchoring GmbH. As of December 31, 2012, the assets and liabilities of the company had been classified as "held for sale."

Assets and liabilities held for sale

in million euros	December 31, 2013
Intangible assets and property, plant and equipment	7
Inventories and trade accounts receivable	11
Cash and cash equivalents	10
Other assets	8
Provisions	– 17
Borrowings	– 6
Other liabilities	– 6
Net assets	**7**

(10) Issued capital

Issued capital

in million euros	December 31, 2012	December 31, 2013
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 remained unchanged from the previous year. The number of preferred shares in circulation is also unchanged from the previous year and amounted to 174,482,305 shares at December 31, 2013.

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, by as much as 25.6 million euros (25.6 million shares) in total 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 for transferring to third parties for the purpose of acquiring companies or investing in companies. Treasury shares 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 the need for further resolution by the Annual General Meeting. 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 shares held by the corporation at December 31, 2013 amounted to 3,680,570 preferred shares. This represents 0.84 percent of the capital stock and a proportional nominal value of 3.7 million euros.

See also the explanatory notes on pages 26 to 28 of the Group 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

Recognized in retained earnings are the following:

- Amounts allocated in the financial statements of Henkel AG & Co. KGaA in previous years
- Amounts allocated from 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
- The acquisition or disposal of ownership interests in subsidiaries with no change in control

For details on the acquisition of ownership interests in subsidiaries with no change in control in fiscal 2013, please see the section "Acquisitions and divestments" on pages 111 and 112.

(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 valuation in total comprehensive income 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 depreciation of the US dollar versus the euro, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation grew compared to the figure at December 31, 2012, by –530 million euros to –1,336 million euros.

(14) Non-controlling interests

Recognized under non-controlling interests are equity shares held by third parties measured on the basis of the proportion of net assets.

(15) Pension obligations

Description of the pension plans
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 income of the person entitled. Details on pension benefits for members of the Management Board are provided in the remuneration report on pages 33 to 41.

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.

A total of around 67,600 plan participants qualify for benefits under our pension programs. Of this figure, 28,300 are active employees, 9,100 are former employees with vested benefits, and 30,200 are retirees. The majority of the recipients of pension benefits are located in Germany and the USA. The pension obligations are primarily financed via various external trust assets that are legally independent of Henkel.

Active employees of Henkel in Germany participate in a defined contribution system, "Altersversorgung 2004 (AV 2004)," which was restructured in 2004. AV 2004 is an employer-financed pension plan that reflects the personal income development of employees during their career at Henkel and thus provides a defined benefit pension. Henkel guarantees a minimum return on the company's contributions. The benefit essentially consists of an annuity payable upon attainment of the retirement age plus a lump-sum payment if the annuity threshold is exceeded in the employee's service period. In addition to age and disability pensions, the plan benefits include surviving spouse and surviving child benefits.

Employees who started at Henkel after April 1, 2011 participate in the pension plan "Altersversorgung 2011 (AV 2011)." AV 2011 is an employer-financed, fund-linked retirement plan funded by contributions based on the income development of the employee. Henkel ensures its employees that a principal amount is available upon retirement which is at least equivalent to the level of principal contributions made by Henkel. Henkel makes the pension contribution to an investment fund established for the purpose of the company pension plan. Upon attaining retirement age, the employee can choose between an annuity through transfer of the superannuation lump-sum to a pension fund, or a one-time payment.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have transferred the 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. In addition, we also subsidize medical benefits for retired employees resident mainly in the USA. Under these programs, retirees are reimbursed for a certain percentage of their medical expenses. We build provisions during the employees' service period and pay the promised benefits when they are claimed.

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 excluding multi-employer plans for the year under review amounted to 85 million euros (previous year: 90 million euros). In 2013, we paid 46 million euros to public sector institutions (previous year: 48 million euros) and 39 million euros to private sector institutions (previous year: 42 million euros).

The pension benefits paid from plan assets in the USA increased from –45 million euros to –149 million euros in the reporting period. The increase resulted from early benefit payments to former employees in the USA.

Multi-employer plans

Henkel provides defined pension benefits that are financed by more than one employer. The following multi-employer plans are treated as defined contribution plans because, due to the limited share of the contribution volume in the plans, the information available for each of the financing companies is insufficient for defined benefit accounting. In the Henkel Group, benefits from multi-employer plans are provided for employees primarily in the USA and Japan. Withdrawal from our multi-employer plans at the present time would incur a one-time expense of around 25 million euros (previous year: around 25 million euros).

The most significant information concerning our major multi-employer plans is presented below:

Overview of multi-employer plans at December 31, 2013

Country in million euros	Share of plan contribution volume	Coverage ratio	Contributions	Expected contributions 2014
USA	0.20 %	48 %	1.0	1.0
Japan	0.44 %	75 %	0.5	0.5
Japan	1.67 %	82 %	0.5	0.5
Japan	7.13 %	81 %	0.2	0.2

Assumptions

Group-wide, the obligations from our pension plans are valued by an independent external actuary at the end of the fiscal year. The calculations at the end of the fiscal year are based on the actuarial assumptions below. These are given as the weighted average. The mortality rates used are based on published statistics and experience relating to each country. In Germany, the assumptions are based on the "Heubeck 2005G" mortality table. In the USA, the assumptions are based on the "RP 2000 projected to 2030" mortality table. The valuation of pension obligations in Germany was based essentially on the assumption of a 2 percent increase in retirement benefits (previous year: 2 percent).

The discount rate is based on yields in the market for high-ranking corporate bonds on the respective date. The currency and term of the underlying bonds are aligned with the currency and expected maturities of the post-employment pension obligation.

Actuarial assumptions

	Germany		USA		Other countries[1]	
in percent	2012	2013	2012	2013	2012	2013
Discount rate	3.00	3.00	3.80	4.90	4.20	3.50
Income trend	3.25	3.25	4.25	4.25	3.00	3.25
Expected increases in costs for medical benefits	–	–	8.00	7.50	6.30	3.00
in years						
Life expectancy at age 65 as of the valuation date for a person currently						
65 years old	20.6	20.8	20.0	21.0	22.9	23.5
40 years old	23.7	24.0	20.0	21.0	25.2	26.0

[1] Weighted average.

Prior-year figures adjusted in application of IAS 19 revised (see notes on page 116).

Present value of pension obligations at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	**2,269**	**1,169**	**846**	**4,284**
Changes in the Group	–	–	–	**–**
Translation differences	–	– 20	–	**– 20**
Actuarial gains (–)/losses (+)	418	89	115	**622**
of which: from changes in demographic assumptions[1]	–	–	–	**–**
of which: from changes in financial assumptions	413	84	109	**606**
of which: from experience adjustments	5	5	6	**16**
Current service cost	37	19	27	**83**
Employee contributions to pension funds	–	–	1	**1**
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 15	**– 15**
Interest expense	96	50	35	**181**
Retirement benefits paid out of plan assets/out of reimbursement rights	– 36	– 54	– 53	**– 143**
Employer’s payments for pension obligations	– 104	– 26	– 13	**– 143**
Past service cost (+)/gain (–)	4	– 1	– 3	**–**
At December 31, 2012	**2,684**	**1,226**	**940**	**4,850**
of which: unfunded obligations	100	298	103	**501**
of which: funded obligations	2,584	821	837	**4,242**
of which: obligations covered by reimbursement rights	–	107	–	**107**

[1] Other countries not calculated due to materiality; figures reported based on financial assumptions.

Fair value of plan assets at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	**1,933**	**728**	**642**	**3,303**
Changes in the Group	–	–	–	**–**
Translation differences	–	– 16	4	**– 12**
Employer contributions to pension funds	235	80	47	**362**
Employee contributions	–	–	1	**1**
Retirement benefits paid out of plan assets	– 36	– 45	– 53	**– 134**
Interest income on plan assets	88	27	24	**139**
Plan administration costs	–	–	–	**–**
Remeasurements in equity	153	48	40	**241**
At December 31, 2012	**2,373**	**822**	**705**	**3,900**

Fair value of reimbursement rights at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	**–**	**84**	**–**	**84**
Changes in the Group	–	–	–	–
Translation differences	–	– 2	–	– 2
Employer contributions	–	6	–	6
Employee contributions	–	–	–	–
Retirement benefits paid out of reimbursement rights	–	– 9	–	– 9
Interest income on plan assets	–	4	–	4
Remeasurements in equity	–	6	–	6
At December 31, 2012	**–**	**89**	**–**	**89**

Net liability from pension obligations at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	**336**	**446**	**216**	**998**
Recognized through profit and loss				
Current service cost	37	19	27	83
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 15	– 15
Plan administration costs [1]	–	–	–	–
Interest expense	8	19	11	38
Recognized in equity in other comprehensive income				
Actuarial gains (–)/losses (+)	418	89	115	622
Interest income on plan assets	– 153	– 48	– 40	– 241
Interest income on reimbursement rights	–	– 6	–	– 6
Change in effect of asset ceiling	–	–	– 7	– 7
Other items recognized in equity				
Employer’s payments	– 339	– 112	– 60	– 511
Changes in the Group	–	–	–	–
Translation differences	–	– 2	– 4	– 6
Past service cost [1]	4	– 1	– 3	–
Change in effect of asset ceiling including reimbursement rights	–	5	–	5
Recognized provision for pension obligations at December 31, 2012	**311**	**409**	**240**	**960**

[1] Prior-year amount not adjusted (see notes on page 116).

Present value of pension obligations at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	**2,684**	**1,226**	**940**	**4,850**
Changes in the Group	–	–	–	–
Translation differences	–	– 38	– 25	– 63
Actuarial gains (–)/losses (+)	1	– 109	11	– 97
of which: from changes in demographic assumptions	–	23	–	23
of which: from changes in financial assumptions	2	– 120	13	– 105
of which: from experience adjustments	– 1	– 12	– 2	– 15
Current service cost	44	19	30	93
Employee contributions to pension funds	3	–	2	5
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 1	– 1
Interest expense	78	44	30	152
Retirement benefits paid out of plan assets/out of reimbursement rights	– 118	– 156	– 41	– 315
Employer’s payments for pension obligations	– 18	– 24	– 13	– 55
At December 31, 2013	**2,674**	**962**	**933**	**4,569**
of which: unfunded obligations	83	267	103	453
of which: funded obligations	2,591	648	830	4,069
of which: obligations covered by reimbursement rights	–	47	–	47

Fair value of plan assets at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	**2,373**	**822**	**705**	**3,900**
Changes in the Group	–	–	–	–
Translation differences	–	– 30	– 16	– 46
Employer contributions to pension funds	28	–	34	62
Employee contributions	3	–	2	5
Retirement benefits paid out of plan assets	– 118	– 149	– 41	– 308
Interest income on plan assets	72	29	23	124
Plan administration costs	–	– 3	–	– 3
Remeasurements in equity	57	– 21	– 18	18
At December 31, 2013	**2,415**	**648**	**689**	**3,752**

Fair value of reimbursement rights at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	**–**	**89**	**–**	**89**
Changes in the Group	–	–	–	–
Translation differences	–	– 4	–	– 4
Employer contributions	–	8	–	8
Employee contributions	–	–	–	–
Retirement benefits paid out of reimbursement rights	–	– 7	–	– 7
Interest income on plan assets	–	4	–	4
Remeasurements in equity	–	6	–	6
At December 31, 2013	**–**	**96**	**–**	**96**

Net liability from pension obligations at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	311	409	240	960
Recognized through profit and loss				
Current service cost	44	19	30	93
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 1	– 1
Plan administration costs	–	3	–	3
Interest expense	6	11	7	24
Recognized in equity in other comprehensive income				
Actuarial gains (–)/losses (+)	1	– 109	11	– 97
Interest income on plan assets	– 57	21	18	– 18
Interest income on reimbursement rights	–	– 6	–	– 6
Change in effect of asset ceiling	–	–	– 2	– 2
Other items recognized in equity				
Employer's payments	– 46	– 32	– 47	– 125
Changes in the Group	–	–	–	–
Translation differences	–	– 4	– 9	– 13
Change in past service cost	–	– 5	1	– 4
Change in effect of asset ceiling including reimbursement rights	–	7	– 1	6
Recognized provision for pension obligations at December 31, 2013	259	314	247	820

A total of 67,600 plan participants qualify for benefits under our pension programs. The total present value (defined benefit obligation – DBO) is comprised of:

- 1,572 million euros for active employees
- 676 million euros for former employees with vested benefits
- 2,321 million euros for retirees

The average weighted duration of pension obligations is 14 years for Germany, 9 years for the USA and 20 years for other countries.

In determining net liability, we take into account amounts that are not recognized due to asset ceiling restrictions. If the fair value of the plan assets exceeds the obligations arising from the pension benefits, an asset is recognized only if the reporting entity can also derive economic benefit from these assets, for example in the form of return flows or a future reduction in contributions (“asset ceiling” per IAS 19.58 ff.). In the reporting period, we recorded an amount of 0 million euros (previous year: 2 million euros).

Within our consolidated statement of income, current service costs are allocated on the basis of cost of sales to the respective cost item. Only the net of interest expense for the present value of obligations and interest income from plan assets is reported in the interest result. 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 contributions and staff welfare costs” under Note 32, page 158. In 2013, payments into the plan assets amounted to 62 million euros (previous year: 362 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.

Payments into pension funds in fiscal 2014 are expected to total 30 million euros.

Analysis of plan assets

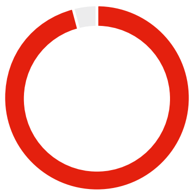
in million euros	December 31, 2012 Quotation on active markets	No quotation on active markets	Total	December 31, 2013 Quotation on active markets	No quotation on active markets	Total
Shares	896	–	896	1,038	–	1,038
Europe	358	–	358	454	–	454
USA	156	–	156	167	–	167
Others	382	–	382	417	–	417
Bonds and hedging instruments	2,455	– 96	2,359	2,410	– 11	2,399
Government bonds	747	–	747	739	–	739
Corporate bonds	1,708	–	1,708	1,671	–	1,671
Derivatives	–	– 96	– 96	–	– 11	– 11
Alternative investments	56	184	240	3	151	154
Cash	–	214	214	–	71	71
Liabilities[1]	–	– 20	– 20	–	– 120	– 120
Other assets	–	211	211	–	210	210
Total	3,470	430	3,900	3,451	301	3,752

[1] Liability to Henkel AG & Co. KGaA from the takeover of pension payments for Henkel Trust e.V.

Plan assets by country 2013

- 64 % Germany
- 17 % USA
- 19 % Other countries

Classification of bonds by rating 2013



- 96 % Investment grade
- 4 % Non-investment grade

The objective of the investment strategy for the global plan assets is the long-term security of pension payments. This is ensured by comprehensive risk management that takes into account the asset and liability portfolios of the defined benefit pension plans. Henkel pursues a liability-driven investment (LDI) approach in order to achieve the investment objective. This approach takes into account the structure of the pension obligations and manages the cover ratio of the pension plans. In order to improve the funding ratio, Henkel invests plan assets in a diversified portfolio whose expected long-term yield is above the interest costs of the pension obligations.

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, commodities and real estate. In principle, the target portfolio structure of the plan assets is determined in asset-liability studies. These studies are conducted regularly with the help of external advisors who assist Henkel in the investment of plan assets. They examine the actual portfolio structure taking into account current capital market conditions, investment principles and the obligation structure, and can suggest that adjustments be made to the portfolio.

The expected long-term yield for individual plan assets is derived from the target portfolio structure and the expected long-term yields for the individual asset classes.

Major plan assets are administered by external fund managers in Germany and the USA. These countries pursue the above investment strategies and are monitored centrally. At December 31, 2013, other assets making up the plan assets included the present value of a non-current receivable of 47 million euros (previous year: 47 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 against BASF Personal Care & Nutrition GmbH (formerly Cognis GmbH) for indemnification of pension obligations (previous year: 140 million euros). This claim represents the nominal value which is equivalent to the market price. In the reporting year, as in the previous year, we held no direct investments and no treasury shares with respect to plan assets in the portfolio.

Risks associated with pension obligations

Our internal pension risk management monitors the risks of all pension plans Group-wide in compliance with local legal regulations. As part of the monitoring process, guidelines on the control and management of risks are adopted and continuously developed; these guidelines mainly govern external funding, portfolio structure and actuarial assumptions. The objective of the financing strategy within the Group is to ensure that plan assets cover 90 to 100 percent of the present value of the funded pension obligations. The contributions and investment strategies are intended to ensure nearly complete coverage of the plans for the duration of the pension obligations.

Henkel's pension obligations are exposed to various market risks. These risks are counteracted by the degree of external funding and the structure of pension benefits. The risks relate primarily to changes in market interest rates, inflation, and life expectancy, as well as general market fluctuations. Pension obligations based on contractual provisions in Germany generally entail lifelong benefits payable in the event of death or disability or when the employee reaches a retirement age. In order to reduce the risks arising from the payment of lifelong benefits as well as inflation, pension benefits have been gradually converted since 2004 to what are known as modular benefits with a pension option in which the benefit is initially divided into an annuity and lump-sum benefit portion. Newly hired employees since 2011 receive a benefit based primarily on the lump-sum benefit. Generally, lump-sum benefits may also be paid out as an annuity through a pension fund. All benefits in Germany are financed through a provident fund (Vorsorgefonds) established for the purpose of the occupational pension plan. Benefits for new employees since 2011 as well as a portion of the entitlements vested since 2004 are linked to the performance of this provident fund, resulting in a reduction in overall risk to the Group. The described adjustments reduce the financial risk from pension commitments within the pension structure.
By linking the benefit to the capital investment, the net risk is also largely eliminated. An increase in the long-term inflation assumption would mainly affect the expected increases in pensions and the expected increase in pension-eligible salaries.

The pension obligations in the USA are based primarily on three retirement plans that are all closed to new employees. New employees receive a pension benefit based on a defined contribution plan. The pension benefits generally have a lump-sum option which is usually exercised. When a pension becomes payable, the amount of the lump-sum payment is determined on the basis of current market interest rates. As a result, the impact of a change to the interest rate used in the calculation is low compared to pension commitments entailing lifelong benefits. Additionally, in the USA, pensions paid once are not adjusted by amount, thus there are no direct risks during the pension payment period arising from pending adjustments. Inflation risks therefore result mainly from the salary adjustments awarded.

In addition to the pension obligation risks already presented, there are specific risks associated with multi-employer plans. In the Henkel Group, these are mainly related to the USA. The contributions to these plans are raised mainly through an allocation process based on the pension-eligible income of active employees. Restructuring contributions may also be made in order to close gaps in coverage. The risks of such plans arise largely from higher future contributions to close coverage gaps or through discontinuation by other companies obligated to make contributions.

The impact of changes to assumptions in medical benefits for employees and retirees in the USA are shown in the sensitivities analysis overleaf.

The analysis of our Group-wide pension obligations revealed no extraordinary risks.

Cash flows and sensitivities

In the next five financial years, the following payments from pension plans are expected:

Future payments for pension benefits

in million euros	Germany	USA	Other countries	Total
2014	142	105	31	**278**
2015	132	84	30	**246**
2016	131	82	30	**243**
2017	130	80	29	**239**
2018	130	79	31	**240**

The future level of the funded status and thus of the pension obligations depends on the development of the discount rate, among other factors. Companies based in Germany and the USA account for 80 percent of our pension obligations. The medical costs for employees of our subsidiaries in the USA which are incurred after retirement are also recognized in the pension obligations for defined benefit plans. A rate of increase of 7.5 percent (previous year: 8.0 percent) was assumed for the medical costs. We expect this rate of increase to fall gradually to 4.5 percent by 2028 (previous year: 5.0 percent by 2018). The effects of a change in material actuarial assumptions for the present value of pension obligations are as follows:

Sensitivities – Present value of pension obligations at December 31, 2013

in million euros	Germany	USA	Other countries	Total
Present value of obligations	2,674	962	933	**4,569**
in the event of:				
Increase in the discount rate by 0.5 pp	2,496	927	849	**4,272**
Reduction of the discount rate by 0.5 pp	2,862	1,002	1,029	**4,893**
Rise in future income increases by 0.5 pp	2,675	967	955	**4,597**
Reduction of future income increases by 0.5 pp	2,673	958	911	**4,542**
Rise in retirement benefits increases by 0.5 pp	2,810	962	990	**4,762**
Reduction of retirement benefits increases by 0.5 pp	2,547	962	883	**4,392**
Rise in medical costs by 0.5 pp	2,674	966	934	**4,574**
Reduction of medical costs by 0.5 pp	2,674	960	932	**4,566**

pp = percentage points

The extension of life expectancy in Germany by one year would increase the present value of pension obligations by 4 percent. This would have a more limited effect in the USA because a significant share of the pension plans is based on lump-sum benefits.

It should be noted with respect to the sensitivities presented that, due to mathematical effects, the percentage change is not and does not need to be linear. Thus the percentage increases and decreases do not vary with the same absolute amount. Each sensitivity is independently calculated and is not subject to scenario analysis.

(16) Income tax provisions and other provisions

Development in 2013

in million euros	Initial balance January 1, 2013	Other changes	Utilized	Released	Added	End balance December 31, 2013
Income tax provisions	255	– 14	119	47	175	250
of which: non-current	66	0	3	35	50	78
of which: current	189	– 14	116	12	125	172
Restructuring provisions	255	– 22	100	20	127	240
of which: non-current	79	– 11	7	3	30	88
of which: current	176	– 11	93	17	97	152
Sundry provisions	1,274	– 29	993	44	1,341	1,549
of which: non-current	186	4	46	4	107	247
of which: current	1,088	– 33	947	40	1,234	1,302
Total	1,784	– 65	1,212	111	1,643	2,039
of which: non-current	331	– 7	56	42	187	413
of which: current	1,453	– 58	1,156	69	1,456	1,626

Provisions are recognized for obligations toward third parties where the outflow of resources is probable and the expected obligation can be reliably estimated. Provisions are measured 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 0.7 and 3.2 percent.

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

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

Provisions have been made for risks arising from legal disputes in the amount of probable claims plus associated procedural costs.

Other changes in provisions include changes in the scope of consolidation, movements in exchange rates, compounding effects, as well as 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. Additions to the restructuring provisions are related to the continued expansion of our shared services and to the further optimization of production and process structures in all business units.

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 pending transactions.

Provisions for obligations in the personnel sphere essentially cover expenditures likely to be incurred by the Group for variable, performance-related compensation components. The decrease of the current payroll provision is mainly attributable to the "Special Incentive 2012" payout.

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

Analysis of sundry provisions by function

in million euros	December 31, 2012	December 31, 2013
Sales	213	623
of which: non-current	5	10
of which: current	208	613
Payroll	690	517
of which: non-current	114	140
of which: current	576	377
Production and engineering	39	41
of which: non-current	22	21
of which: current	17	20
Various sundry obligations	332	368
of which: non-current	45	76
of which: current	287	292
Total	1,274	1,549
of which: non-current	186	247
of which: current	1,088	1,302

(17) Borrowings

	December 31, 2012			December 31, 2013		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Bonds	2,451	1,173	3,624	1,383	1,078	2,461
Commercial papers [1]	–	–	–	–	35	35
Liabilities to banks [2]	–	146	146	–	117	117
Other borrowings	3	1	4	3	–	3
Total	**2,454**	**1,320**	**3,774**	**1,386**	**1,230**	**2,616**

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

Bonds

Issuer	Type	Nominal value	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			2012	2013	2012	2013	2012	2013	2012	2013	
Henkel AG & Co. KGaA	Bond	1,000	1,015	–	1,017	–	1,041	–	4.2500	–	to 2013
Interest rate swap (3-month Euribor +0.405 %) [5]	*Receiver swap*	*1,000*	*16*	*–*	*16*	*–*	*40*	*–*	*0.5951*	*–*	*3 months*
Henkel AG & Co. KGaA	Bond	1,000	1,024	1,004	1,050	1,008	1,086	1,044	4.6250	4.6250	to 2014 [3]
Interest rate swap (3-month Euribor +2.02 %) [5]	*Receiver swap*	*1,000*	*26*	*5*	*26*	*5*	*61*	*41*	*2.2053*	*2.2955*	*3 months*
Henkel AG & Co. KGaA	Hybrid bond	1,300	1,427	1,383	1,401	1,379	1,408	1,386	5.3750	5.3750	to 2015 [4]
Interest rate swap (3-month Euribor +1.80 %) [5]	*Receiver swap*	*650*	*60*	*39*	*60*	*39*	*62*	*41*	*1.9902*	*2.0172*	*3 months*
Interest rate swap (1-month Euribor +0.955 %) [5]	*Receiver swap*	*650*	*78*	*51*	*78*	*51*	*82*	*54*	*1.0650*	*1.1133*	*1 month*
Total bonds		**3,300**	**3,466**	**2,387**	**3,468**	**2,387**	**3,535**	**2,430**			
Total interest rate swaps		**3,300**	**180**	**95**	**180**	**95**	**245**	**136**			

[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: 4.625 percent, converted using interest rate swaps into a floating interest rate; no further interest fixing (previous year: March 19, 2013) (fair value hedge).
[4] Fixed-rate interest of bond coupon: 5.375 percent, converted using interest rate swaps into a floating interest rate; interest rate fixed on January 27, 2014 (previous year: January 23, 2013) (fair value hedge).
[5] Not including the valuation allowance in the amount of 2 million euros to provide for counterparty credit risk (previous year: 1 million euros).

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

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 more details. On the basis of the cash flow calculated at December 31, 2013, the percentage was 123.11 percent (previous year: 70.56 percent).

The US dollar liabilities of Henkel of America, Inc., Wilmington, USA, in the amount of 1,340 million euros are set off against the deposit of 1,302 million euros of Henkel US LLC, Wilmington, USA, and financial collateral of 60 million euros. The net amount of financial collateral shown in the statement of financial position under "Other financial assets" is 22 million euros.

(18) Other financial liabilities

Analysis

in million euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2013 Non-current	December 31, 2013 Current	December 31, 2013 Total
Liabilities to non-consolidated affiliated companies and associated companies	–	15	15	–	15	15
Liabilities to customers	–	47	47	–	30	30
Derivative financial instruments	14	38	52	–	34	34
Sundry financial liabilities	2	11	13	2	8	10
Total	**16**	**111**	**127**	**2**	**87**	**89**

Of the liabilities to non-consolidated affiliated companies and associated companies, 7 million euros relate to non-consolidated affiliated companies and 8 million euros relate to associated companies. Sundry financial liabilities include payments owed to the Pensionssicherungsverein mutual insurance association amounting to 5 million euros (previous year: 9 million euros).

(19) Other liabilities

Analysis

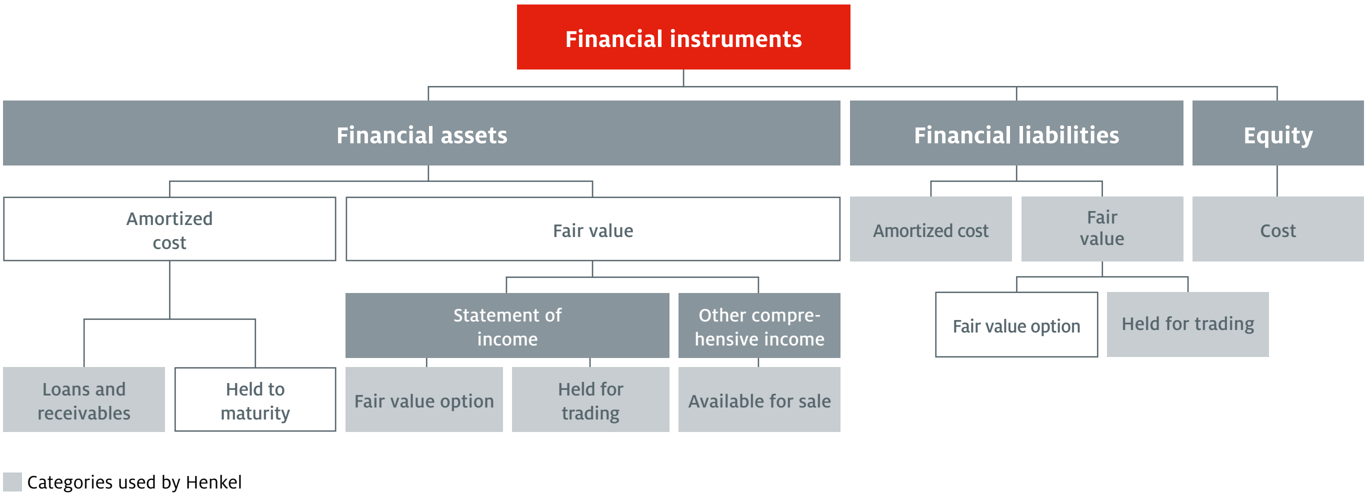
in million euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2013 Non-current	December 31, 2013 Current	December 31, 2013 Total
Other tax liabilities	–	90	90	–	94	94
Liabilities to employees	2	14	16	1	17	18
Liabilities relating to employee deductions	–	56	56	–	60	60
Liabilities in respect of social security	1	19	20	1	21	22
Sundry other liabilities	15	40	55	12	38	50
Total	**18**	**219**	**237**	**14**	**230**	**244**

The sundry other liabilities primarily comprise various accruals and deferrals amounting to 14 million euros (previous year: 15 million euros) and payments on account in the amount of 4 million euros (previous year: 5 million euros).

(20) Trade accounts payable

Trade accounts payable increased from 2,647 million euros to 2,872 million euros. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. They are all 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 exception of derivative financial instruments, which are recognized on the transaction date. All financial instruments are initially reported 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 “Fair value option,” “Available for sale” and “Held for trading” are generally measured at fair value. In the fair value option, we include fixed-interest bonds, which are recognized in other financial assets under securities and time deposits and for which we have concluded interest rate swaps in order to convert the fixed interest rate into a floating interest. Other securities and time deposits as well as other investments which are not measured at equity, both part of other financial assets in the statement of financial position, are categorized as “Available 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.” We recognize all other financial instruments including the financial assets categorized as “Loans and receivables” at amortized cost using the effective interest method. The measurement category “Held to maturity” is 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 investments, derivatives, securities and time deposits. The carrying amounts of the financial instruments categorized as “Loans and receivables” closely approximate 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 valuation allowances.

Financial instruments are recognized in the “Fair value option” if this classification conveys more relevant information by eliminating or significantly reducing inconsistencies in the measurement or in the recognition that result from the valuation of assets or liabilities or the recognition of gains and losses on a different basis. Financial instruments classified in the fair value option are recognized at fair value through profit or loss.

Financial instruments in the category “Available for sale” are non-derivative financial assets and are recognized at fair value, provided that this is reliably determinable. If the fair value cannot be reliably determined, they are recognized at cost. Value changes between the reporting dates are essentially recognized in comprehensive income (revaluation reserve) without affecting profit or loss, 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 not classified under the fair value option, and also other investments, are categorized as “Available for sale.” The fair values of the securities and time deposits are based on quoted market prices, or derived from market data. As the fair values of the financial investments not recognized at equity cannot be reliably determined, they are measured at amortized cost. The sale or disposal of these financial instruments is currently not 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. Hedge accounting is applied in individual cases – where possible and economically sensible – in order to avoid profit and loss variations arising from fair value changes in derivative financial instruments. Depending on the type of underlying and the risk being hedged, fair value and cash flow hedges are 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 pages 144 to 147.

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 in hedge accounting.

In addition to the disclosures provided in this note with respect to offsetting financial assets and financial liabilities for derivatives (see pages 148 and 149), further offsetting disclosures can be found in Note 17 (“Borrowings”) on page 138.

Carrying amounts and fair values of financial instruments

December 31, 2012 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	**3,433**	3,433	–	–	**3,433**
Trade accounts receivable	**2,021**	2,021	–	–	**2,021**
Other financial assets	**174**	174	–	–	**174**
Receivables from associated companies	**1**	1	–	–	**1**
Financial receivables from third parties	**59**	59	–	–	**59**
Receivables from Henkel Trust e.V.	**20**	20	–	–	**20**
Sundry financial assets	**94**	94	–	–	**94**
Cash and cash equivalents	**1,238**	1,238	–	–	**1,238**
Fair value option	**537**	–	–	537	**537**
Other financial assets	**537**	–	–	537	**537**
Fixed-interest securities (level 1)	**248**	–	–	248	**248**
Fixed-interest securities (level 2)	**289**	–	–	289	**289**
Available for sale	**1,726**	18	1,708	–	**1,726**
Other financial assets	**1,726**	18	1,708	–	**1,726**
Other investments	**18**	18	–	–	**18**
Floating-interest securities and time deposits (level 1)	**1,654**	–	1,654	–	**1,654**
Floating-interest securities (level 2)	**–**	–	–	–	**–**
Fixed-interest securities (level 1)	**50**	–	50	–	**50**
Financial collateral provided	**4**	–	4	–	**4**
Held for trading (level 2)	**14**	–	–	14	**14**
Derivative financial instruments not included in a designated hedging relationship	**14**	–	–	14	**14**
Derivative financial instruments included in a designated hedging relationship (level 2)	**244**	–	–	244	**244**
Total	**5,954**	**3,451**	**1,708**	**795**	**5,954**
Liabilities					
Amortized cost	**6,496**	6,496	–	–	**6,498**
Trade accounts payable	**2,647**	2,647	–	–	**2,647**
Borrowings with no financial statement hedging relationship	**241**	241	–	–	**241**
Borrowings with a financial statement hedging relationship	**3,533**	3,533	–	–	**3,535**
Other financial liabilities	**75**	75	–	–	**75**
Held for trading (level 2)	**33**	–	–	33	**33**
Derivative financial instruments not included in a designated hedging relationship	**33**	–	–	33	**33**
Derivative financial instruments included in a designated hedging relationship (level 2)	**19**	–	19	–	**19**
Total	**6,548**	**6,496**	**19**	**33**	**6,550**

December 31, 2013 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	3,652	3,652	–	–	3,652
Trade accounts receivable	2,370	2,370	–	–	2,370
Other financial assets	231	231	–	–	231
Receivables from associated companies	–	–	–	–	–
Financial receivables from third parties	32	32	–	–	32
Receivables from Henkel Trust e.V.	120	120	–	–	120
Sundry financial assets	79	79	–	–	79
Cash and cash equivalents	1,051	1,051	–	–	1,051
Fair value option	619	–	–	619	619
Other financial assets	619	–	–	619	619
Fixed-interest securities (level 1)	245	–	–	245	245
Fixed-interest securities (level 2)	374	–	–	374	374
Available for sale	1,805	18	1,787	–	1,805
Other financial assets	1,805	18	1,787	–	1,805
Other investments	18	18	–	–	18
Floating-interest securities and time deposits (level 1)	1,720	–	1,720	–	1,720
Floating-interest securities (level 2)	22	–	22	–	22
Fixed-interest securities (level 1)	19	–	19	–	19
Financial collateral provided	26	–	26	–	26
Held for trading (level 2)	17	–	–	17	17
Derivative financial instruments not included in a designated hedging relationship	17	–	–	17	17
Derivative financial instruments included in a designated hedging relationship (level 2)	135	–	–	135	135
Total	6,228	3,670	1,787	771	6,228
Liabilities					
Amortized cost	5,543	5,543	–	–	5,543
Trade accounts payable	2,872	2,872	–	–	2,872
Borrowings with no financial statement hedging relationship	186	186	–	–	186
Borrowings with a financial statement hedging relationship	2,430	2,430	–	–	2,430
Other financial liabilities	55	55	–	–	55
Held for trading (level 2)	31	–	–	31	31
Derivative financial instruments not included in a designated hedging relationship	31	–	–	31	31
Derivative financial instruments included in a designated hedging relationship (level 2)	3	–	3	–	3
Total	5,577	5,543	3	31	5,577

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 fair value of securities and time deposits classified as level 1 is based on the quoted market prices on the reporting date. Observable market data were used to measure the fair value of level 2 securities.

We did not perform any reclassifications between the valuation categories or transfers within the fair value hierarchy either in fiscal 2013 or in the previous year.

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	2012	2013
Loans and receivables	55	47
Fair value option	3	7
Financial assets available for sale	11	10
Financial assets and liabilities held for trading including derivatives in a designated hedging relationship	9	– 35
Financial liabilities measured at amortized cost	– 203	– 109
Total net results	**– 125**	**– 80**
Foreign exchange effects	– 6	– 1
Interest expense of pension provisions less interest income from plan assets and reimbursement rights [1]	– 38	– 24
Other financial result (not related to financial instruments)	– 12	– 8
Financial result	**– 181**	**– 113**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

The net result of "Loans and receivables" is allocated in full to interest income. Net expenses arising from additions and releases of valuation allowances amounting to 17 million euros (previous year: 30 million euros) and income from payments on financial instruments already written off and derecognized amounting to 4 million euros (previous year: 3 million euros) were recognized in operating profit.

The net result of the securities and time deposits classified under the "Fair value option" includes interest income of 7 million euros (previous year: 1 million euros) and valuation gains of 0 million euros (previous year: 2 million euros).

The net result from securities and time deposits classified as "Available for sale" amounts to 10 million euros (previous year: 10 million euros) for interest income and 0 million euros (previous year: 1 million euros) for income from other investments. The measurement of these financial instruments at fair value led to a gain of 1 million euros (previous year: gain of 3 million euros) which we have recognized in the reserve for "Financial instruments available for sale" in equity.

The net result from "Held for trading" financial instruments and derivatives in a designated hedging relationship includes, in addition to the outcome of measurement of these derivatives at fair value amounting to – 94 million euros (previous year: –46 million euros), an expense of 1 million euros arising from additions to the valuation allowance made for counterparty credit risk (previous year: income from the release of the valuation allowance in the amount of 4 million euros). Moreover 60 million euros of interest income from interest rate derivatives and amounts recycled from cash flow hedges recognized in equity are also included under this heading (previous year: 51 million euros).

The net result from "Financial liabilities measured at amortized cost" is essentially derived from the interest expense for borrowings amounting to 184 million euros (previous year: 215 million euros). Also included are valuation gains of 81 million euros (previous year: 17 million euros) from borrowings in a fair value hedge relationship. Fees amounting to 6 million euros for procuring money and loans were also recognized under this heading (previous year: 5 million euros).

The realization and valuation of financial assets and liabilities in foreign currencies (without derivative financial instruments) resulted in an expense of – 1 million euros (previous year: –6 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 hedge accounting.

Hedge accounting is not applied to the large majority of derivative financial instruments. We recognize through profit or loss the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of Group strategy. These are largely compensated by fair value changes in 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 ("hedge of 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]	
	2012	2013	2012	2013	2012	2013
Forward exchange contracts[1]	1,985	**2,118**	14	**17**	– 17	**– 20**
(of which: for hedging loans within the Group)	*(1,628)*	***(1,671)***	*(12)*	***(12)***	*(– 16)*	***(– 19)***
(of which: designated as cash flow hedge)	–	***(56)***	–	***(1)***	–	**–**
Foreign exchange options	–	**62**	–	**1**	–	**–**
Interest rate swaps	4,734	**3,424**	244	**134**	– 35	**– 14**
(of which: designated as fair value hedge)	*(3,300)*	***(2,300)***	*(244)*	***(134)***	*(–)*	***(–)***
(of which: designated as cash flow hedge)	*(910)*	***(508)***	*(–)*	***(–)***	*(– 19)*	***(– 3)***
(of which: to hedge financial instruments in the fair value option)	*(524)*	***(616)***	*(–)*	***(–)***	*(– 16)*	***(– 11)***
Commodity futures[1]	1	**1**	–	**–**	–	**–**
(of which: designated for hedge accounting)	*(–)*	***(–)***	*(–)*	***(–)***	*(–)*	***(–)***
Total derivative financial instruments	**6,720**	**5,605**	**258**	**152**	**– 52**	**– 34**

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

For forward exchange contracts, we determine the fair value 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. We measure interest rate hedging instruments 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 interbank market in each case on December 31.

Interest rates in percent p. a.

At December 31 Term	Euro		US dollar	
	2012	2013	2012	2013
1 month	0.07	**0.24**	0.23	**0.16**
3 months	0.18	**0.25**	0.42	**0.25**
6 months	0.25	**0.41**	0.48	**0.38**
1 year	0.48	**0.52**	0.88	**0.59**
2 years	0.38	**0.54**	0.39	**0.48**
5 years	0.77	**1.26**	0.85	**1.79**
10 years	1.60	**2.22**	1.82	**3.17**

Due to the complexities involved, financial derivatives for hedging commodity price risks are primarily measured on the basis of simulation models, which are derived from market quotations. We perform regular plausibility checks 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 2013 amounts to 2 million euros (previous year: 1 million euros). We recognized the addition in profit and loss 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 serve to hedge risks arising from trade accounts receivable and payable, and those pertaining to Group financing.

Interest rate hedges serve to manage the interest rate risks arising from the fixed-interest bonds issued by Henkel AG & Co. KGaA and the floating-interest bank liabilities of Henkel of America, Inc. See also the following explanations relating to fair value hedges and cash flow hedges and to the interest rate risk in the Henkel Group. In addition, interest rate derivatives are entered into to hedge the fair value of the fixed-interest securities classified in the “Fair value option.”

To a small extent, we use commodity derivatives to hedge uncertainties in future commodity price developments. See also the explanations relating to other price risks on page 152.

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 95 million euros (previous year: 180 million euros) excluding accrued interest. The changes in fair value of the receiver interest rate swaps arising from market interest rate risks amounted to –85 million euros (previous year: –19 million euros). The corresponding changes in fair value of the hedged bonds amounted to 81 million euros (previous year: 17 million euros). In determining the fair value change in the bonds (see also Note 17 on page 138), 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	2012	2013
Gains (+)/losses (–) from hedged items	17	81
Gains (+)/losses (–) from hedging instruments	–19	–85
Net	–2	–4

Cash flow hedges: A cash flow hedge hedges 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 in 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
2013	–234	7	10	–217
2012	–347	103	10	–234

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 the floating-interest US dollar liabilities at Henkel of America, Inc. Secondly, it relates to forward exchange contracts for acquisitions in prior years and to one already contracted transaction.

Of the addition in the amount of 7 million euros, 5 million euros relates to interest rate hedging of US dollar liabilities at Henkel of America, Inc. The remaining increase of 2 million euros after taxes on income relates to the contracted transaction. The amortization of the amounts recognized in equity for the US dollar liabilities resulted in a disposal of 10 million euros after tax (15 million euros before tax). The fair value of the interest rate swaps for the US dollar liabilities of Henkel of America, Inc. amounted to –3 million euros (previous year: –18 million euros) excluding accrued interest. The fair value of the currency hedges for the contracted transaction amounted to 1 million euros. In the fiscal year under review, ineffective portions amounting to less than 1 million euros (as in the previous year) were recognized in profit or loss under financial result. Both the cash flows arising from hedging and the hedged cash flows of the US dollar liabilities of Henkel of America, Inc. are expected in 2014 and will be recognized through profit or loss in the period concerned as interest expense. The hedged cash flows relating to acquisitions of previous years 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. The cash flows relating to currency hedging and the hedged cash flows from the contracted transaction are expected to arise in 2014 and will only be recognized in operating profit with disposal or in the event of an impairment loss on the hedged items.

Hedges of a net investment in a foreign entity: The accounting treatment of hedges of 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 and US dollars for which the associated hedges were entered into and settled in previous years.

As in the previous year, no hedges of a net investment in a foreign entity were entered into in the past fiscal year. We did not transfer any amounts from equity to profit or loss in the course of the year.

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
2013	35	–	–	35
2012	69	– 34	–	35

Maximum risk position

in million euros	2012	2013
Trade accounts receivable	2,021	2,370
Derivative financial instruments not included in a designated hedging relationship	14	17
Derivative financial instruments included in a designated hedging relationship	244	135
Other financial assets	2,437	2,655
Cash and cash equivalents	1,238	1,051
Total carrying values	5,954	6,228

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 countervailing fluctuations.

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. They define the targets, principles and competences of the Corporate Treasury organizational unit. These guidelines describe the fields of responsibility and establish the distribution of these responsibilities between Corporate Treasury and Henkel's subsidiaries. The Management Board is regularly and comprehensively informed of all major risks and of all relevant hedging transactions and arrangements. Our description of the objectives and fundamental principles adopted in capital management can be found in the Group management report on pages 64 and 65. There were no major risk clusters in the year under review.

Credit risk

In the course of its 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 (excluding financial investments recognized at equity), as indicated in the following table:

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. We also monitor our key customer relationships at the regional and global level. In addition, safeguarding measures are implemented on a selective basis for particular countries and customers inside and outside the eurozone.

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

We make valuation allowances with respect to financial assets so that the assets are recognized at their fair value at the reporting date. In the case of impairment losses that have already occurred but have not yet been identified, we make global valuation allowances on the basis of empirical evidence, taking into account the overdue structure of the trade accounts receivable. Receivables and loans that are more than 180 days overdue are, following the impairment test, generally written off.

The decision as to whether a credit risk is accounted for through a valuation allowance account or by derecognition of the impaired receivable depends upon the probability of incurring a loss. For accounts receivable classified as irrecoverable, we report the credit risk directly through derecognition of the impaired receivable or the relevant amount in the valuation allowance account. If the basis for the original impairment is eliminated, we recognize a reversal through profit and loss.

In all, we recognized valuation allowances on loans and receivables in 2013 in the amount of 17 million euros (previous year: 30 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: 1 million euros).

Based on our experience, we do not expect the necessity 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	More than 91 days	Total
At December 31, 2013	165	52	20	5	242
At December 31, 2012	151	46	14	4	215

Credit risks also arise from monetary investments such as cash at bank, securities and the positive fair value of derivatives. Such exposure is limited by our Corporate Treasury specialists through the selection of counterparties with strong credit ratings, and limitations on 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 high financial standing. We invest exclusively in securities from issuers with an investment grade rating. Our cash deposits can be liquidated at short notice. Our financial investments are broadly diversified across various counterparties and various financial assets. To minimize the credit risk, we agree netting arrangements to offset bilateral receivables and obligations with counterparties. We additionally enter into collateral agreements with selected banks, on the basis of which reciprocal sureties are established twice a month to secure the fair values of contracted derivatives and other claims and obligations. The netting arrangements only provide for a contingent right to offset transactions conducted with a contractual party. Accordingly, associated amounts can be offset only under certain circumstances, such as the insolvency of one of the contractual parties. Thus, the netting arrangements do not meet the offsetting criteria under IAS 32 "Financial Instruments: Presentation." The following table provides an overview of financial assets and financial liabilities from derivatives that are subject to netting, collateral, or similar arrangements:

Financial assets and financial liabilities from derivatives subject to netting, collateral, or similar arrangements

At December 31	Gross amount recognized in the statement of financial position [1]		Amount eligible for offsetting		Financial collateral received/provided		Net amount	
in million euros	2012	2013	2012	2013	2012	2013	2012	2013
Financial assets	258	154	46	19	66	54	146	81
Financial liabilities	52	34	46	19	–	4	6	11

[1] Market values excluding valuation allowance of 2 million euros (previous year: 1 million euros) made for counterparty credit risk.

In addition to netting and collateral arrangements, investment limits are set, based on the ratings of the counterparties, in order to minimize credit risk. These limits are monitored and adjusted regularly. When determining the limits, we also apply certain other indicators, such as the pricing of credit default swaps (CDS) by banks. A valuation allowance of 2 million euros exists to cover the remaining credit risk from the positive fair values of derivatives (previous year: 1 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 issued bonds. With the help of our existing debt issuance program in the amount of 6 billion euros, this is also possible on a short-term and flexible basis. In order to ensure 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 1.5 billion euros to ensure its liquidity and financial flexibility at all times. These credit lines have terms until 2018. The individual subsidiaries of the Henkel Group additionally have at their disposal committed bilateral loans of 0.1 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, 2012 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	December 31, 2012 Total cash flow
Bonds [1]	3,624	1,250	2,486	–	3,736
Commercial papers [2]	–	–	–	–	–
Liabilities to banks	146	147	–	–	147
Trade accounts payable	2,647	2,647	–	–	2,647
Sundry financial instruments [3]	79	74	2	3	79
Original financial instruments	6,496	4,118	2,488	3	6,609
Derivative financial instruments	52	38	15	–	53
Total	6,548	4,156	2,503	3	6,662

[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 billion US dollars and 1 billion euros).
[3] Sundry financial instruments include amounts due to customers and finance bills.

Cash flows from financial liabilities

in million euros	December 31, 2013 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	December 31, 2013 Total cash flow
Bonds [1]	2,461	1,146	1,370	–	2,516
Commercial papers [2]	35	35	–	–	35
Liabilities to banks	117	117	–	–	117
Trade accounts payable	2,872	2,872	–	–	2,872
Sundry financial instruments [3]	58	53	2	3	58
Original financial instruments	5,543	4,223	1,372	3	5,598
Derivative financial instruments	34	28	6	–	34
Total	5,577	4,251	1,378	3	5,632

[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 billion US dollars and 1 billion euros).
[3] Sundry financial instruments include amounts due to customers and finance bills.

Market risk

Market risk exists 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 Corporate Treasury guidelines. Financial derivatives are entered into solely 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 conclusion 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 the 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. 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, 2013 amounted to 74 million euros after hedging (previous year: 21 million euros). The value-at-risk shows the maximum expected risk of loss in a year as a result of currency fluctuations. Starting in fiscal 2013, our value-at-risk analysis has been extended to one year in our internal risk reports as it provides a more comprehensive representation of the risk associated with a fiscal year. 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 Ukrainian hryvnia and the Turkish lira. The value-at-risk analysis assumes a time horizon of one year and a unilateral confidence interval of 95 percent. We adopt the variance-covariance approach as our basis for calculation. Volatilities 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, normally with a forecasting horizon of nine 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 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 and in 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 through our choice of interest commitments and 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 made in interest management relate to the bonds issued to secure Group liquidity, the securities and time deposits used for cash investments, and the other financial instruments. The financial instruments and interest rate derivatives exposed to interest rate risk are primarily 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 derivatives as an effective means of guarding against interest rates rising over the short term. A major portion of the financing in US dollars has been converted from floating to fixed interest rates through interest rate swaps. The fixed interest period expires at the end of the first quarter 2014. As a result, the net interest position primarily comprises a structured mix of fixed US dollar and floating euro interest rates.

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

Interest rate exposure

	Carrying amounts	
in million euros	2012	2013
Fixed-interest financial instruments		
Euro	–	–
US dollar	910	508
Others	–	–
	910	508
Floating-interest financial instruments		
Euro	– 260	– 827
US dollar	42	168
Chinese yuan	– 228	– 364
Russian ruble	– 129	– 106
Others	– 250	– 338
	– 825	– 1,467

The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the main floating-interest financial instruments as of the reporting date. Net debt is defined as borrowings less cash and cash equivalents and readily monetizable financial instruments classified as "Available for sale" or according to the "Fair value option," less positive and plus negative fair values of hedging transactions. The interest rate risk figures shown in the table are based on this calculation at the relevant reporting date. When analyzing fair value risk, we assume a parallel shift in the interest curve of 100 basis points, and calculate the hypothetical loss or gain of the relevant interest rate derivatives at the reporting date 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 following table.

Interest rate risk

in million euros	2012	2013
Based on an interest rate change of 100 basis points	– 2	– 15
of which:		
Cash flow through profit and loss	– 8	– 15
Fair value recognized in equity through comprehensive income	6	–

Other price risks (commodity price risk)

Uncertainty with respect to raw material price development impacts the Group. 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 procurement market risk is described in more detail in the risk and opportunities report on pages 92 and 93.

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 from the derivatives would be less than 1 million euros.

Notes to the consolidated statement of income

(22) Sale proceeds and principles of income recognition

Sales remained approximately at the previous year's level, at 16,355 million euros. Revenues and their development by business unit and region are summarized in the Group segment report and in the key financials by region on pages 109 and 110. A detailed explanation of the development of major income and expense items can be found in the Group management report on pages 57 to 61.

Sales comprise sales of goods and services less direct 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 so-called transfer of risks and rewards. Henkel uses different terms of delivery that contractually determine 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 with respect to 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 shareholders' right to receive payment is legally established.

(23) Cost of sales

The cost of sales decreased from 8,778 million euros to 8,546 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/depreciation and impairment of intangible assets and property, plant and equipment.

(24) Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,242 million euros (previous year: 4,302 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, valuation allowances on trade accounts receivable as well as valuation allowances and impairment on trademarks and other rights.

(25) Research and development expenses

Research and development expenses were slightly above the previous year's level, at 415 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 842 million euros (previous year: 785 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	2012	2013
Release of provisions[1]	29	14
Gains on disposal of non-current assets	19	39
Insurance claim payouts	6	4
Write-ups of non-current assets	1	5
Payments on derecognized receivables	3	4
Profits on sale of businesses	2	–
Sundry operating income	49	56
Total	**109**	**122**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 0 million euros in 2013 (2012: 15 million euros).

Gains on the disposal of non-current assets include income from the sale of Chemofast Anchoring GmbH, and from the sale of enzyme production technologies in the Laundry & Home Care business unit. Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as grants and subsidies, bonus credits, tax refunds and similar income.

(28) Other operating charges

Other operating charges

in million euros	2012	2013
Losses on disposal of non-current assets	8	5
Contractual termination severance payments	13	–
Impairment on assets held for sale	–	35
Impairment on other assets	–	–
Sundry operating expenses	126	107
Total	**147**	**147**

The impairment on assets held for sale relates to our companies in Iran (Laundry & Home Care and Adhesive Technologies). Sundry operating expenses relate to the settlement of a legal dispute with a former joint venture partner in the amount of 20 million euros, and to a number of individual items arising from ordinary operating activities, such as fees, provisions for litigation, third party claims, sundry taxes, and similar expenses.

(29) Financial result

Financial result

in million euros	2012[1]	2013
Investment result	1	–
Interest result	– 182	– 113
Total	**– 181**	**– 113**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Investment result

in million euros	2012	2013
Income from other investments	–	–
Other	1	–
Total	**1**	**–**

Interest result

in million euros	2012[1]	2013
Interest and similar income from third parties[2]	32	36
Interest income from plan assets less interest expense for pension obligations[3]	–	–
Interest income on reimbursement rights (IAS 19)	4	4
Other financial income	14	25
Total interest income	**50**	**65**
Interest to third parties[2]	– 129	– 94
Other financial charges	– 61	– 56
Interest expense for pension obligations less interest income from plan assets[3]	– 42	– 28
Total interest expense	**– 232**	**– 178**
Total	**– 182**	**– 113**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).
[2] Including interest income and interest expense, both in the amount of 30 million euros in 2013 (2012: 35 million euros), with respect to mutually offset deposits and liabilities to banks, reported on a net basis.
[3] Interest expense in 2013: 152 million euros; interest income: 124 million euros (interest expense in 2012: 181 million euros; interest income in 2012: 139 million euros).

Please see page 140 of the financial instruments report for information on the net results of the valuation categories under IFRS 7 and the reconciliation to financial result.

(30) Taxes on income

Income tax expense/income breaks down as follows:

Income before taxes on income and analysis of taxes

in million euros	2012 [1]	2013
Income before tax	**2,018**	**2,172**
Current taxes	532	571
Deferred taxes	– 40	– 24
Taxes on income	**492**	**547**
Tax rate in percent	*24.4 %*	*25.2 %*

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Main components of tax expense and income

in million euros	2012 [1]	2013
Current tax expense/income in the reporting year	534	609
Current tax adjustments for prior years	– 2	– 38
Deferred tax expense/income from temporary differences	– 50	– 31
Deferred tax expense from unused tax losses	24	–
Deferred tax expense from tax credits	1	–
Deferred tax expense/income from changes in tax rates	– 3	– 3
Increase/decrease in valuation allowances on deferred tax assets	– 2	10
Tax income from application of IAS 19 revised	– 10	–

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Deferred tax expense by items on the statement of financial position

in million euros	2012 [1]	2013
Intangible assets	– 52	– 6
Property, plant and equipment	3	– 12
Financial assets	5	– 1
Inventories	3	– 1
Other receivables and other assets	– 8	– 28
Special tax item	– 3	– 3
Provisions	– 36	4
Liabilities	25	13
Tax credits	1	–
Unused tax losses	24	–
Valuation allowances	– 2	10
Financial statement figures	**– 40**	**– 24**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

We have summarized the individual company reports – prepared on the basis of the tax rates applicable in each country and taking into account consolidation procedures – in the statement below, showing how the expected 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	2012 [1]	2013
Income before taxes on income	2,018	2,172
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31 %	31 %
Expected tax charge	**626**	**673**
Tax reductions due to differing tax rates abroad	– 75	– 86
Tax increases/reductions for prior years	8	– 32
Tax increases/reductions due to changes in tax rates	– 3	– 3
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	– 2	10
Tax reductions due to tax-free income and other items	– 159	– 107
Tax increases/reductions arising from additions and deductions for local taxes	18	18
Tax increases due to withholding taxes	27	22
Tax increases due to non-deductible expenses	52	52
Tax charge disclosed	**492**	**547**
Tax rate	**24.4 %**	**25.2 %**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Deferred taxes are calculated on the basis of tax rates that apply in the individual countries at the year-end date or which have already been legally decided. 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 and liabilities are netted where they involve the same tax authority and the same tax creditor.

The deferred tax assets and liabilities stated on the reporting date relate to the following items of the consolidated statement of financial position, unused tax losses and tax credits:

Allocation of deferred taxes

	Deferred tax assets		Deferred tax liabilities	
in million euros	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
Intangible assets	162	193	669	661
Property, plant and equipment	18	15	90	73
Financial assets	6	10	14	18
Inventories	36	35	6	7
Other receivables and other assets	59	48	97	59
Special tax items	–	–	43	40
Provisions	679	636	10	12
Liabilities	109	77	17	9
Tax credits	8	8	–	–
Unused tax losses	27	29	–	–
Amounts netted	– 497	– 422	– 497	– 422
Valuation allowances	– 15	– 23	–	–
Financial statement figures	**592**	**606**	**449**	**457**

The deferred tax assets of 636 million euros (previous year: 679 million euros) relating to provisions in the financial statement result primarily from recognition and measurement differences with respect to pensions. The deferred tax liabilities of 661 million euros (previous year: 669 million euros) relating to intangible assets are mainly attributable to business combinations such as the acquisition of the National Starch businesses in 2008.

An excess of deferred tax assets is only recognized insofar as it is likely that the company concerned will achieve sufficiently positive taxable profits in the future against which the deductible temporary differences can be offset and tax loss carry-forwards can be used. Deferred taxes have not been recognized with respect to unused tax losses of 93 million euros (previous year: 52 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, 75 million euros (previous year: 24 million euros) expire after more than three years. State taxes relating to our US-American subsidiary account for 42 million euros (previous year: 0 million euros) of these unused tax losses (tax rate: around 5 percent). Of the tax losses carried forward, 18 million euros are non-expiring (previous year: 25 million euros).

Deferred tax liabilities of 12 million euros (previous year: 5 million euros) relating to the retained earnings of foreign subsidiaries have been recognized due to the fact that these earnings will be distributed in 2014.

We have summarized the expiry dates of unused tax losses and tax credits in the table below, which includes unused tax losses arising from losses on the disposal of assets of 9 million euros (previous year: 11 million euros) which may be carried forward without restriction.

Expiry dates of unused tax losses and tax credits

in million euros	Unused tax losses December 31, 2012	Unused tax losses December 31, 2013	Tax credits December 31, 2012	Tax credits December 31, 2013
Expire within				
1 year	4	4	–	–
2 years	3	–	–	–
3 years	–	–	–	–
more than 3 years	140	144	8	8
May be carried forward without restriction	61	52	–	–
Total	208	200	8	8

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.

Of unused tax losses expiring beyond three years, 93 million euros (previous year: 104 million euros) relate to loss carry-forwards of US subsidiaries with respect to state taxes.

Equity-decreasing deferred taxes of 36 million euros were recognized (previous year: equity-increasing amount of 114 million euros). Of these deferred tax liabilities, 26 million euros result from actuarial gains and losses on pension obligations, and 10 million euros from gains and losses on cash flow hedges.

(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 36 million euros (previous year: 47 million euros) and that of losses 0 million euros (previous year: 1 million euros).

Other disclosures

(32) Payroll cost and employee structure

Payroll cost[1]

in million euros	2012	2013
Wages and salaries	2,139	2,056
Social security contributions and staff welfare costs	356	358
Pension costs	148	156
Total	**2,643**	**2,570**

[1] Excluding personnel-related restructuring charges of 116 million euros (previous year: 92 million euros).

Number of employees per function[1]

	2012	2013
Production and engineering	23,150	23,000
Marketing, selling and distribution	14,700	14,850
Research and development	2,650	2,600
Administration	6,300	6,350
Total	**46,800**	**46,800**

[1] Annual average headcount: full-time employees, excluding apprentices and trainees, work experience students and interns; figures rounded.

(33) Share-based payment plans

Global Cash Performance Units Plan (Global CPU Plan) 2004–2012

Since the end of the Stock Incentive Plan in 2004, those eligible for that plan, the senior executive personnel of the Henkel Group (excluding members of the Management Board), have been part of the Global CPU Plan, which enables them to participate in any increase in the 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 cycles up 2012, these targets were 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. An upper limit or cap is imposed in the event of extraordinary share price increases.

Global Long Term Incentive Plan (Global LTI Plan) 2013

In fiscal 2013, the general terms and conditions of the Global CPU Plan were amended and replaced by the Global LTI Plan 2013. Starting in 2013, CPUs are granted on condition that the member of the Plan is employed for four 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 three subsequent calendar years. In addition, an Outperformance Reward, which awards CPUs based on the achievement of target figures established in advance, may be set at the beginning of a four-year medium-term plan.

Due to the extension of the cycle, one tranche with a three-year term and another with a four-year term were issued in the reporting period. 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 2011 and 2012 cycles, the target is based on growth in adjusted earnings per preferred share. 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. The overall payout of the long-term incentive is subject to a cap.

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 members provide their services to Henkel. The seventh cycle, which was issued in 2010, became due for payment in 2013. At December 31, 2013, the CPU Plan worldwide comprised 383,715 CPUs (previous year: 411,736 CPUs) from the eighth tranche issued in 2011 (expense: 10.2 million euros), 514,776 CPUs (previous year: 492,938 CPUs) from the ninth tranche issued in 2012 (expense: 13.7 million euros) and 1,099,475 CPUs from the tranches issued in the reporting year (expense: 25.6 million euros). The Outperformance Reward comprised 549,473 CPUs (expense: 11.0 million euros). This resulted in an additional expense in the reporting year of 60.5 million euros (previous year: 28.8 million euros). The corresponding provision amounted to 94.7 million euros (previous year: 57.2 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 future increase in earnings per preferred share (EPS), adjusted for exceptional items, over a period of three years (performance period – for details, please refer to the remuneration report on pages 33 to 41).

(34) Group segment report

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

Business units

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

Laundry & Home Care

The Laundry & Home Care business unit 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. Our Home Care product portfolio encompasses hand and automatic dishwashing products, cleaners for bathroom and WC applications, and household, glass and specialty cleaners. We also offer air fresheners and insecticides for household applications in selected regions.

Beauty Care

The Beauty Care business unit is active in the Branded Consumer Goods business with Hair Care, Hair Colorants, Hair Styling, Body Care, Skin Care and Oral Care, as well as the professional Hair Salon business.

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

The Adhesive Technologies business unit comprises five market- and customer-focused strategic businesses.

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, 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 strip coating to final vehicle assembly.

In 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. Our economies of scale allow us to offer attractive solutions for standard and volume applications.

Our Electronics business offers customers from the worldwide electronics industry a technology-spanning portfolio of innovative high-technology adhesives and soldering materials for the manufacture of microchips and electronic assemblies.

Principles of Group segment reporting

In determining the segment results and the assets and liabilities, we apply essentially the same principles of recognition and measurement as in the consolidated financial statements. We have valued net operating assets in foreign currencies 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.

Of the restructuring charges, 28 million euros is attributable to the business unit Laundry & Home Care, 51 million euros is attributable to Beauty Care and 58 million euros is attributable to Adhesive Technologies.

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 units.

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, we allocate sales to countries on the basis of the country-of-origin principle, and non-current assets in accordance with the domicile of the international company to which they pertain.

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

in million euros	Net operating assets Annual average[1] 2012	Net operating assets December 31, 2012	Financial statement figures December 31, 2012	Net operating assets Annual average[1] 2013	Net operating assets December 31, 2013	Financial statement figures December 31, 2013
Goodwill at book value	6,774	6,661	6,661	6,565	6,353	**6,353**
Other intangible assets and property, plant and equipment (total)	4,377	4,298	4,298	4,281	4,131	**4,131**
Deferred taxes	–	–	592	–	–	**606**
Inventories	1,619	1,478	1,478	1,618	1,494	**1,494**
Trade accounts receivable from third parties	2,238	2,021	2,021	2,633	2,370	**2,370**
Intra-group accounts receivable	712	709	–	765	706	–
Other assets and tax refund claims[2]	370	304	3,199	439	372	**3,303**
Cash and cash equivalents			1,238			**1,051**
Assets held for sale			38			**36**
Operating assets (gross) / Total assets	**16,090**	**15,471**	**19,525**	**16,301**	**15,426**	**19,344**
– Operating liabilities	4,826	5,007	–	5,669	5,470	–
of which: Trade accounts payable to third parties	2,661	2,647	2,647	2,920	2,872	**2,872**
Intra-group accounts payable	712	709	–	768	706	–
Other provisions and other liabilities[2] (financial and non-financial)	1,453	1,651	1,893	1,981	1,892	**2,122**
Net operating assets	11,265	10,464	–	10,632	9,959	–
– Goodwill at book value	6,774	–	–	6,565	–	–
+ Goodwill at cost[3]	7,260	–	–	7,072	–	–
Capital employed	11,751	–	–	11,139	–	–

[1] The annual average is calculated on the basis of the twelve monthly figures.
[2] We only take amounts relating to operating activities into account in calculating net operating assets.
[3] Before deduction of accumulated impairment pursuant to IFRS 3.79(b).

(35) Earnings per share

Earnings per share

in million euros (rounded)	2012 [1]	2013
Net income attributable to shareholders of Henkel AG & Co. KGaA	**1,480**	**1,589**
Dividends, ordinary shares	242	312
Dividends, preferred shares	166	213
Total dividends	408	525
Retained earnings per ordinary share	641	636
Retained earnings per preferred share	431	428
Retained earnings	**1,072**	**1,064**
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.93	1.20 [4]
of which preliminary dividend per ordinary share in euros [2]	*0.02*	*0.02*
Retained earnings per ordinary share in euros	2.47	2.45
EPS per ordinary share in euros	**3.40**	**3.65**
Number of outstanding preferred shares [3]	174,460,902	174,482,305
Dividend per preferred share in euros	0.95	1.22 [4]
of which preferred dividend per preferred share in euros [2]	*0.04*	*0.04*
Retained earnings per preferred share in euros	2.47	2.45
EPS per preferred share in euros	**3.42**	**3.67**
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.93	1.20 [4]
of which preliminary dividend per ordinary share in euros [2]	*0.02*	*0.02*
Retained earnings per ordinary share in euros (after dilution)	2.47	2.45
Diluted EPS per ordinary share in euros	**3.40**	**3.65**
Number of potential outstanding preferred shares	174,473,723 [5]	174,482,305
Dividend per preferred share in euros	0.95	1.22 [4]
of which preferred dividend per preferred share in euros [2]	*0.04*	*0.04*
Retained earnings per preferred share in euros (after dilution)	2.47	2.45
Diluted EPS per preferred share in euros	**3.42**	**3.67**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).
[2] See Group management report, Corporate governance, Division of capital stock, Shareholder rights on page 26.
[3] Weighted annual average of preferred shares (Henkel buy-back program).
[4] Proposal to shareholders for the Annual General Meeting on April 4, 2014.
[5] Weighted annual average of preferred shares adjusted for the potential number of shares arising from the Stock Incentive Plan.

(36) Consolidated statement of cash flows

We prepare the consolidated statement of cash flows in accordance with International Accounting Standard (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, and financing activities. Financial funds include cash on hand, checks and credit 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. The computation is adjusted for effects arising from currency translation. In some countries, there are administrative hurdles to the transfer of money to the parent company. The assets held for sale of our companies in Iran include cash and cash equivalents of 10 million euros that cannot be transferred to the parent company at present.

Cash flows from operating activities are determined by initially adjusting operating profit by non-cash variables such as amortization/depreciation/impairment/write-ups on intangible assets and property, plant and equipment – supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. We disclose payments made for income taxes under operating cash flow.

Cash flows from investing activities occur essentially as a result of outflows of funds for investments in intangible assets and property, plant and equipment, subsidiaries and other business units, as well as investments accounted for at equity and joint ventures. We also recognize inflows of funds from the sale of intangible assets and property, plant and equipment, subsidiaries and other business units here. In the reporting period, cash flows from investing activities mainly involved outflows for investments in intangible assets and property, plant and equipment in the amount of –436 million euros (previous year: –422 million euros). Outflows for the acquisition of subsidiaries and other business units in the amount of –31 million euros (previous year: –113 million euros) and inflows from the sale of subsidiaries and other business units in the amount of 24 million euros (previous year: 3 million euros) relate to the acquisitions and divestments described in the section “Acquisitions and divestments” on pages 111 and 112.

In cash flows from financing activities, we recognize 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 in the reporting year was significantly affected by the redemption of our senior bond in June 2013.

Free cash flow shows how much cash is actually available for acquisitions and dividends, reducing debt and/or contributions to pension funds.

(37) Contingent liabilities

Analysis

in million euros	December 31, 2012	December 31, 2013
Liabilities under guarantee and warranty agreements	5	4

(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 commitments under operating lease agreements are shown at the total amounts payable up to the earliest date of termination. The amounts shown are the nominal values. At December 31, 2013, they were due for payment as follows:

Operating lease commitments

in million euros	December 31, 2012	December 31, 2013
Due in the following year	71	62
Due within 1 to 5 years	127	119
Due after 5 years	33	19
Total	**231**	**200**

Within the Group, we primarily lease office space and equipment, automobiles, and IT equipment. Some of these contracts contain extension options and price adjustment clauses. In the course of the 2013 fiscal year, 63 million euros became due for payment under operating leases (previous year: 66 million euros).

As of the end of 2013, commitments arising from orders for property, plant and equipment amounted to 62 million euros (previous year: 39 million euros).

As of the reporting date, payment commitments under the terms of agreements for capital increases and share purchases contracted prior to December 31, 2013 amounted to 0 million euros (previous year: 0 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 a participating interest, associated entities and also the members of the corporate management bodies of Henkel AG & Co. KGaA whose remunerations are indicated in the remuneration report section of the management report on pages 33 to 41. 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]:

Henkel AG & Co. KGaA, Düsseldorf, has been notified that on December 14, 2013 the proportion of voting rights held by the members of the Henkel share-pooling agreement represents in total a percentage of 58.68 percent of the voting rights (152,437,099 votes) in Henkel AG & Co. KGaA, held by
- 121 members of the families of the descendents of Fritz Henkel, the company's founder,
- four foundations set up by members of those families,
- three trusts set up by members of those families,
- three private limited companies (GmbH) set up by members of those families, eleven 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 per Section 22 (2) of the German Securities Trading Law [WpHG], whereby the shares held by the three private limited companies, by the eleven limited partnerships with a limited company as general partner, and by the one limited partnership, representing a percentage of 14.57 percent (37,855,790 voting rights), are attributed (per Section 22 (1) no. 1 WpHG) to the family members who control those companies.

No party to the share-pooling agreement is obliged to notify that it has reached or exceeded 3 percent or more of the total voting rights in Henkel AG & Co. KGaA, even after adding voting rights expressly granted under the terms of usufruct agreements.

Dr. Simone Bagel-Trah, Germany, is the authorized representative of the parties to the Henkel share-pooling agreement. Financial receivables from and payables to other investments in the form of non-consolidated affiliated entities and associated 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 page 124). The receivable does not bear interest.

(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 2013:
- Schwarzkopf Henkel Production Europe GmbH & Co. KG, Düsseldorf (Section 264b German Commercial Code [HGB])
- Henkel Loctite-KID GmbH, Hagen (Section 264 (3) 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 bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,529,589 euros plus value-added tax (previous year: 1,580,000 euros) and 2,350,000 euros (previous year: 2,350,000 euros), respectively. The total remuneration (Section 285 no. 9a and Section 314 (1) no. 6a HGB) of the Management Board and members of the Management Board of Henkel Management AG amounted to 26,944,135 euros (previous year: 25,309,802 euros).

For pension obligations to former members of the Management Board and the management of Henkel KGaA, as well as the former management of its legal predecessor and surviving dependents, 95,956,228 euros (previous year: 90,881,294 euros) is deferred. The total remuneration for this group of persons (Section 285 no. 9b and Section 314 (1) no. 6b HGB) in the reporting year amounted to 7,626,894 euros (previous year: 7,041,167 euros). For further details regarding the emoluments of the corporate management bodies, please refer to the audited remuneration report on pages 33 to 41.

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

In February 2013, 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 (DCGK) in accordance with Section 161 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, which are part of these financial statements, 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 services provided by the auditor KPMG AG Wirtschaftsprüfungsgesellschaft and other companies of the KPMG network in fiscal 2012 and 2013 were as follows:

Type of fee

in million euros	2012	of which Germany	2013	of which Germany
Audits	7.0	1.3	6.5	1.5
Other audit-related services	1.5	0.4	2.0	0.9
Tax advisory services	0.9	0.3	1.0	0.0
Other services	0.2	0.1	0.3	0.2
Total	**9.6**	**2.1**	**9.8**	**2.6**

The item "Audits" includes fees and disbursements with respect to 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.

Düsseldorf, January 30, 2014

Henkel Management AG,
Personally Liable Partner
of Henkel AG & Co. KGaA

Management Board
Kasper Rorsted,
Jan-Dirk Auris, Carsten Knobel, Kathrin Menges,
Bruno Piacenza, Hans Van Bylen

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, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, and notes to the consolidated financial statements for the business year from January 1 to December 31, 2013.

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 EU, and the supplementary requirements of German law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: 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 management 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW) as well as in supplementary compliance with International Standards on Auditing (ISA). Accordingly, we are required to comply with ethical 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 internal control system 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 internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the company's personally liable partner, 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 § 322 Abs. 3 Satz 1 HGB, 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 IFRSs as adopted by the EU and the supplementary requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets and financial position of the Henkel Group as at December 31, 2013, as well as the results of operations for the business 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 for the business year from January 1 to December 31, 2013. 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 commercial law pursuant to § [Article] 315a Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code]. We conducted our audit in accordance with § 317 Abs. 2 HGB 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] (IDW). Accordingly, we are required to 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 the audit findings, 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 § 322 Abs. 3 Satz 1 HGB, 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 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 30, 2014

KPMG AG
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Kai C. Andrejewski	Simone Fischer
Wirtschaftsprüfer	Wirtschaftsprüferin
(German Public Auditor)	(German Public Auditor)"

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 700,363,032.37 euros for the fiscal year 2013 be applied as follows:

a)	Payment of a dividend of 1.20 euros per ordinary share (259,795,875 shares)	= 311,755,050.00 euros
b)	Payment of a dividend of 1.22 euros per preferred share (178,162,875 shares)	= 217,358,707.50 euros
c)	The remaining to be carried forward (profit brought forward)	= 171,249,274.87 euros
		700,363,032.37 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 shares) at the date of the Annual General Meeting will be carried forward as retained earnings. As the number of such treasury shares can change up to the time of the Annual General Meeting, a correspondingly adapted proposal for the appropriation of profit will be submitted to it, providing for an unchanged payout of 1.20 euros per ordinary share qualifying for a dividend and 1.22 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 30, 2014

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	2012	2013
Sales	**3,410**	**3,469**
Cost of sales	– 2,337	– 2,375
Gross profit	**1,073**	**1,094**
Selling, research and administrative expenses	– 1,317	– 1,383
Other income (net of other expenses)	359	343
Operating profit	**115**	**54**
Financial result	**458**	**982**
Profit on ordinary activities	**573**	**1,036**
Change in special accounts with reserve element	10	9
Extraordinary result	–	–
Income before tax	**583**	**1,045**
Taxes on income	8	– 17
Net income	**591**	**1,028**
Profit brought forward	3	186
Allocated to other retained earnings/transferred from other retained earnings	–	– 514
Unappropriated profit [1]	**594**	**700**

[1] Statement of income figures are rounded; unappropriated profit 2012: 593,788,240.84 euros; unappropriated profit 2013: 700,363,032.37 euros.

Balance sheet

in million euros	2012	2013
Intangible assets and property, plant and equipment	649	648
Financial assets	7,302	8,716
Non-current assets	**7,951**	**9,364**
Inventories	225	236
Receivables and miscellaneous assets/Deferred charges	1,697	2,218
Marketable securities	1,488	459
Liquid funds	423	329
Current assets	**3,833**	**3,242**
Assets arising from the overfunding of pension obligations	**304**	**293**
Total assets	**12,088**	**12,899**
Equity	**5,458**	**6,078**
Special accounts with reserve element	129	120
Provisions	623	702
Liabilities, deferred income and accrued expenses	5,878	5,999
Total equity and liabilities	**12,088**	**12,899**

* 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.

Responsibility statement by the Personally Liable Partner

To the best of our knowledge, and in accordance with the applicable accounting principles, 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 30, 2014

Henkel Management AG
Management Board
Kasper Rorsted,
Jan-Dirk Auris, Carsten Knobel, Kathrin Menges,
Bruno Piacenza, Hans Van Bylen

Corporate management bodies 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 2014

Dipl.-Ing. Albrecht Woeste: Honorary Chairman of the Henkel Group

Supervisory Board of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 14, 2008

Memberships:
Henkel Management AG (Chair) [1]
Henkel AG & Co. KGaA (Shareholders' Committee, Chair) [2]
Heraeus Holding GmbH [1]

Winfried Zander *
Vice-chair,
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, Munich

Born in 1971
Member since: April 19, 2010

Boris Canessa
Private Investor, Düsseldorf

Born in 1963
Member since: April 16, 2012

Ferdinand Groos
Managing Partner, Cryder Capital Partners LLP, London

Born in 1965
Member since: April 16, 2012

Béatrice Guillaume-Grabisch
Vice President Zone Europe Nestlé S.A., Vevey

Born in 1964
Member since: April 16, 2012

Peter Hausmann *
(since April 15, 2013)
Member of the Executive Board of IG Bergbau, Chemie, Energie and responsible for Wages/Finance, Hannover

Born in 1954
Member since: April 15, 2013

Memberships:
Bayer AG [1]
Continental AG [1]
Vivawest Wohnen GmbH [1]
50 Hertz Transmission AG (Vice-chair) [1]

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,
Carl Zeiss AG, Oberkochen

Born in 1957
Member since: April 14, 2008

Memberships:
Carl Zeiss Group:
Carl Zeiss SMT GmbH (Chair) [1]
Carl Zeiss Meditec AG (Chair) [1]
CZ Microscopy GmbH (Chair) [2]
Carl Zeiss Australia Pty. Ltd. (Chair), Australia [2]
Carl Zeiss Far East Co. Ltd. (Chair), China/Hong Kong [2]
Carl Zeiss Pte. Ltd. (Chair), Singapore [2]
Carl Zeiss India (Bangalore) Private Ltd., India [2]

Barbara Kux
(since July 3, 2013)
Private Investor, Munich

Born in 1954
Member since: July 3, 2013

Memberships:
Firmenich S.A., Switzerland [2]
Total S.A., France [2]
Umicore N.V., Brussels, Belgium [2]

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

* Employee representatives.
[1] Membership in statutory supervisory and administrative boards in Germany.
[2] Membership of comparable oversight bodies.

Thierry Paternot
(until January 14, 2013)
Operating Partner, Duke Street Capital, Paris

Born in 1948
Member from: April 14, 2008

Memberships:
Eckes AG[1]
Bio DS SAS (Chair), France[2]
Freedom-FullSix SAS (Chair), France[2]
Oeneo SA, France[2]
PT Invest SAS (Chair), France[2]
QCNS Cruises SAM, Monaco[2]

Andrea Pichottka *
Managing Director, IG BCE Bonusagentur GmbH, Hannover

Born in 1959
Member since: October 26, 2004

Dr. rer. nat. Martina Seiler *
Chemist, Duisburg
Chairwoman of the General Senior Staff Representative Committee and of the Senior Staff Representative Committee 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:
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 *
(until April 15, 2013)
Chairman of the Executive Committee of IG Bergbau, Chemie, Energie, Hannover

Born in 1964
Member from: May 4, 1998

Memberships:
BASF SE[1]
Evonik Industries AG (Vice-chair)[1]
K+S AG (Vice-chair)[1]
STEAG GmbH (Vice-chair)[1]

Supervisory Board committees

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, Chair
Dr. Kaspar von Braun
Prof. Dr. Theo Siegert

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 accounting, risk management and compliance issues.

Members
Prof. Dr. Theo Siegert, Chair
Prof. Dr. Michael Kaschke, Vice-chair
Dr. Simone Bagel-Trah
Peter Hausmann (since April 15, 2013)
Birgit Helten-Kindlein
Michael Vassiliadis (until April 15, 2013)
Winfried Zander

Shareholders’ Committee of Henkel AG & Co. KGaA

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: April 18, 2005

Memberships:
Henkel AG & Co. KGaA (Chair)[1]
Henkel Management AG (Chair)[1]
Heraeus Holding GmbH[1]

Dr. rer. pol. h.c. Christoph Henkel
Vice-chair,
Managing Partner Canyon Equity LLC, London

Born in 1958
Member since: May 27, 1991

Prof. Dr. oec. HSG Paul Achleitner
Chairman of the Supervisory Board,
Deutsche Bank AG, Munich

Born in 1956
Member since: April 30, 2001

Memberships:
Bayer AG[1]
Daimler AG[1]
Deutsche Bank AG (Chair)[1]

Johann-Christoph Frey
Private Investor, Klosters

Born in 1955
Member since: April 16, 2012

Stefan Hamelmann
Private Investor, Düsseldorf

Born in 1963
Member since: May 3, 1999

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 (Chair)[1]
E.ON AG[1]
Porsche Automobil Holding SE[1]
ThyssenKrupp AG (Chair)[1]
Dr. August Oetker KG[2]
Novartis AG, Switzerland[2]

Dr.-Ing. Dr.-Ing. E.h. Norbert Reithofer
Chairman of the Management Board
of Bayerische Motoren Werke AG, Munich

Born in 1956
Member since: April 11, 2011

Jean-François van Boxmeer
(since April 15, 2013)
Chairman of the Executive Board
of Heineken N.V., Amsterdam

Born in 1961
Member since: April 15, 2013

Membership:
Mondelez International Inc., USA[2]

Konstantin von Unger
Founding Partner, Blue Corporate Finance AG,
London

Born in 1966
Member since: April 14, 2003

Memberships:
Henkel Management AG[1]
Ten Lifestyle Management Ltd.,
Great Britain[2]

Karel Vuursteen
(until April 15, 2013)
Former Chairman of the Executive Board
of Heineken N.V., Amsterdam

Born in 1941
Member from: May 6, 2002

Memberships:
Akzo Nobel N.V. (Chair), Netherlands[2]
Heineken Holding N.V., Netherlands[2]
Tom Tom N.V. (Chair), Netherlands[2]

Werner Wenning
Chairman of the Supervisory Board
of Bayer AG, Leverkusen

Born in 1946
Member since: April 14, 2008

Memberships:
Bayer AG (Chair)[1]
E.ON AG (Chair)[1]
Henkel Management AG[1]
Siemens 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, internal auditing, and risk management in the company.

Members
Dr. Christoph Henkel, Chair
Stefan Hamelmann, Vice-chair
Prof. Dr. Paul Achleitner
Prof. Dr. Ulrich Lehner
Dr. Norbert Reithofer

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, Chair
Konstantin von Unger, Vice-chair
Johann-Christoph Frey
Jean-François van Boxmeer (since April 15, 2013)
Karel Vuursteen (until April 15, 2013)
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 SE & Co. KGaA [1]
Danfoss A/S, Denmark [2]

Jan-Dirk Auris
Adhesive Technologies

Born in 1968
Member since: January 1, 2011

Membership:
Henkel Corporation (Chair), USA [2]

Carsten Knobel
Finance / Purchasing / Integrated Business Solutions

Born in 1969
Member since: July 1, 2012

Memberships:
Henkel (China) Investment Co. Ltd., China [2]
Henkel & Cie AG, Switzerland [2]
Henkel Central Eastern Europe GmbH (Chair), Austria [2]
Henkel Consumer Goods Inc. (Chair), USA [2]
Henkel Ltd., Great Britain [2]
Henkel of America Inc. (Chair), USA [2]

Kathrin Menges
Human Resources / Infrastructure Services

Born in 1964
Member since: October 1, 2011

Memberships:
Henkel Central Eastern Europe GmbH, Austria [2]
Henkel Nederland BV, Netherlands [2]
Henkel Norden AB, Sweden [2]
Henkel Norden Oy, Finland [2]
Henkel of America Inc., USA [2]

Bruno Piacenza
Laundry & Home Care

Born in 1965
Member since: January 1, 2011

Hans Van Bylen
Beauty Care

Born in 1961
Member since: July 1, 2005 [3]

Memberships:
GfK SE, Nuremberg [1]
The Dial Corporation (Chair), USA [2]

Supervisory Board of Henkel Management AG *

Dr. rer. nat. Simone Bagel-Trah
Chair,
Private Investor, Düsseldorf

Born in 1969
Member since: February 15, 2008

Memberships:
Henkel AG & Co. KGaA (Chair) [1]
Henkel AG & Co. KGaA (Shareholders' Committee, Chair) [2]
Heraeus Holding GmbH [1]

Konstantin von Unger
Vice-chair
Founding Partner, Blue Corporate Finance AG, London

Born in 1966
Member since: April 17, 2012

Memberships:
Henkel AG & Co. KGaA (Shareholders' Committee) [2]
Ten Lifestyle Management Ltd., Great Britain [2]

Stefan Hamelmann
(until September 15, 2013)
Private Investor, Düsseldorf

Born in 1963
Member from: April 9, 2013

Membership:
Henkel AG & Co. KGaA (Shareholders' Committee) [2]

Prof. Dr. rer. pol. Ulrich Lehner
(until March 31, 2013)
Former Chairman of the Management Board of Henkel KGaA, Düsseldorf

Born in 1946
Member from: February 15, 2008

Memberships:
Deutsche Telekom AG (Chair) [1]
E.ON AG [1]
Porsche Automobil Holding SE [1]
ThyssenKrupp AG (Chair) [1]
Henkel AG & Co. KGaA (Shareholders' Committee) [2]
Dr. August Oetker KG [2]
Novartis AG, Switzerland [2]

Werner Wenning
(since September 16, 2013)
Chairman of the Supervisory Board of Bayer AG, Leverkusen

Born in 1946
Member since: September 16, 2013

Memberships:
Bayer AG (Chair) [1]
E.ON AG (Chair) [1]
Siemens AG [1]
Freudenberg & Co. KG [2]
Henkel AG & Co. KGaA (Shareholders' Committee) [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

Laundry & Home Care

Dr. Joachim Bolz
International Sales & Customer Operations,
Western Europe

Georg Baratta-Dragono
Marketing Laundry Care,
Latin America

Ashraf El Afifi
Middle East / Africa

Pascal Houdayer
Marketing Home Care,
Business Development

Dr. Marcus Kuhnert
Financial & Business Controlling

Prof. Dr. Thomas Müller-Kirschbaum
Research & Development

Günter Thumser
Eastern Europe

Beauty Care

Michelle Cheung
Asia-Pacific

Thomas Keller
Eastern Europe / CIS,
Latin America, Middle East / Africa

Norbert Koll *
North America

Michael Rauch
Financial & Business Controlling

Marie-Eve Schröder
SBU Hair

Jens-Martin Schwärzler
SBU Body / Skin / Oral,
Western Europe

Stefan Sudhoff
Professional

* Also responsible for Laundry & Home Care, North America.

SBU = Strategic Business Unit

Adhesive Technologies

Hermann Deitzer
SBU Consumer, Craftsmen & Building Adhesives,
Eastern Europe

Paul Kirsch
Supply Chain & Operations

Dr. Christian Kirsten
SBU Transportation & Metal,
Western Europe

Michael Olosky
Research & Innovation,
Asia-Pacific

Jerry Perkins
SBU General Industry,
Latin America

Dr. Matthias Schmidt
Financial & Business Controlling

Csaba Szendrei
SBU Packaging, Consumer Goods & Construction Adhesives,
India and Middle East / Africa

Alan Syzdek
SBU Electronic Materials,
North America

Corporate Functions

Wolfgang Beynio
Finance / Controlling /
Financial Operations

Dr. Andreas Bruns
Infrastructure Services

Bertrand Conquéret
Purchasing

Dr. Stefan Huchler
Global Supply Chain Project

Dr. Joachim Jäckle
Integrated Business Solutions

Thomas Gerd Kühn
Legal & Compliance

Carsten Tilger
Corporate Communications

Active personnel,
as at January 2014.

Management Circle I Worldwide

Rajat Agarwal
Hasan alp Alemdar
Alexey Ananishnov
Dr. Martin Andree
Giacomo Archi
Faruk Arig
Valerie Aubert
Thomas Hans Jörg Auris

Dr. Kourosh Bahrami
Paul R. Berry
Cedric Berthod
Michael Biondolillo
Lambert Bloderer
Oriol Bonaclocha Dolcet
Yvan Bonneton
Guy Boone
Oliver Boßmann
Robert Bossuyt
Hanno Brenningmeyer
Daniel J. Brogan
Sergey Bykovskih

Angela Cackovich
Edward Capasso
Renata Casaro
David Choi
Adil Choudhry
Dr. John J. Cocco
Jürgen Convent
Susanne Cornelius

Matthias Czaja
Michael Czech

Dr. Nils Daecke
Joseph DeBiase
Paul De Bruecker
Ivan De Jonghe
Nicola delli Venneri
Antonio do Vale
Steven Dufresne
Eric Dumez

Christoph Eibel
Simon Ellis
Steven R. Essick
Charles J. Evans

Ahmed Fahmy
Bruce Fang
Thomas Feldbrügge
Dr. Lars Feuerpeil
Dr. Peter Johannes Florenz
Dr. Thomas Förster
Stephan Füsti-Molnar

Thomas Geister
Holger Gerdes
Roberto Gianetti
Luc Godefroid
Michael Goder
Ralf Grauel
Peter Günther

Dr. Roland Haefs
Andreas Hartleb
Peter Hassel
Dr. Christian Hebeler
Jürgen Hellmann
Lars Hennemann
Georg Höbenstreit
Dr. Alois Hoeger
Dr. Dirk Holbach
Thomas Holenia
Jeremy Hunter

Dr. Regina Jäger

Adrian Kaczmarczyk
Dr. Dieter Kahling
Peter Kardorff
George Kazantzis
Michael Kellner
Klaus Keutmann
Patrick Kivits
Rolf Knörzer
Nuri Erdem Kocak
Dr. Harald Köster
Gerald Krenn

Luis C. Lacorte Urrestarazu
Dr. Daniel Langer
Frank Liebich
Tom Linckens

Reinhard Maier-Peveling
Marie-Laure Marduel

Christian Melcher
Maureen E. Midgley
Alfredo Morales
Liam Murphy

Christoph Neufeldt
Sylvie Nicol
Heinz Nicolas

Joseph O'Brien
Björk Ohlhorst
Dr. Uwe Over

Ian Parish
Dr. Tim Petzinna
Jeffrey C. Piccolomini
Mark Popovich

Joerg Raichle
Gary F. Raykovitz
Birgit Rechberger-Krammer
Dr. Michael Reuter
Nuria Ribe
Robert Risse
Dr. Michael Robl
David Rodriguez
Dr. Daniela Roxin
Steffen Ruebke

Norman Sack
Jean-Baptiste Santoul
Dr. Arndt Scheidgen
Dr. Berthold Schreck

Dr. Zuzana Schütz-Halkova
Eric S. Schwartz
Dr. Johann Seif
Dr. Simone Siebeke
Martina Steinberger-Voracek
Katrin Steinbüchel
Dr. Walter Sterzel
Marco Swoboda

Makoto Tamaki
Dr. Boris Tasche
Agnès Thee
Michael G. Todd
Thomas Tönnesmann
Johnny Tong
Alexander Trömel
William Tyree

Ben Van den hende
Amélie Vidal-Simi
Nenad Vukovic

James Tao Wang
Dr. Nicolas Weber
Dr. Tilo Weiss
Stefan Wickmann
Bing Wu

Jun Zhu

Active personnel,
as at January 2014.

Quarterly breakdown of key financials

in million euros	1st quarter 2012 [1]	1st quarter 2013	2nd quarter 2012 [1]	2nd quarter 2013	3rd quarter 2012 [1]	3rd quarter 2013	4th quarter 2012 [1]	4th quarter 2013	Full year 2012 [1]	Full year 2013
Sales										
Laundry & Home Care	1,108	**1,177**	1,147	**1,186**	1,194	**1,167**	1,108	**1,050**	4,556	**4,580**
Beauty Care	861	**873**	921	**923**	908	**886**	852	**828**	3,542	**3,510**
Adhesive Technologies	2,001	**1,944**	2,099	**2,138**	2,153	**2,095**	2,004	**1,940**	8,256	**8,117**
Corporate	39	**39**	39	**38**	39	**36**	38	**35**	155	**148**
Henkel Group	**4,008**	**4,033**	**4,206**	**4,286**	**4,294**	**4,184**	**4,002**	**3,852**	**16,510**	**16,355**
Cost of sales	– 2,124	**– 2,076**	– 2,206	**– 2,219**	– 2,277	**– 2,175**	– 2,171	**– 2,076**	– 8,778	**– 8,546**
Gross profit	**1,884**	**1,957**	**2,000**	**2,067**	**2,017**	**2,009**	**1,831**	**1,776**	**7,732**	**7,809**
Marketing, selling and distribution expenses	– 1,057	**– 1,089**	– 1,115	**– 1,130**	– 1,106	**– 1,059**	– 1,024	**– 964**	– 4,302	**– 4,242**
Research and development expenses	– 102	**– 106**	– 105	**– 105**	– 99	**– 101**	– 102	**– 103**	– 408	**– 415**
Administrative expenses	– 187	**– 220**	– 198	**– 208**	– 213	**– 202**	– 187	**– 212**	– 785	**– 842**
Other operating charges and income	–	**23**	1	**– 17**	– 13	**2**	– 26	**– 33**	– 38	**– 25**
EBIT										
Laundry & Home Care	157	**175**	153	**167**	168	**185**	143	**155**	621	**682**
Beauty Care	120	**124**	131	**135**	114	**122**	118	**93**	483	**474**
Adhesive Technologies	283	**314**	327	**333**	329	**365**	253	**259**	1,191	**1,271**
Corporate	– 22	**– 47**	– 28	**– 28**	– 24	**– 24**	– 22	**– 42**	– 97	**– 141**
Henkel Group	**538**	**565**	**583**	**607**	**586**	**649**	**492**	**464**	**2,199**	**2,285**
Investment result	1	**–**	– 1	**–**	–	**–**	1	**–**	1	**–**
Interest result	– 47	**– 30**	– 44	**– 27**	– 52	**– 25**	– 39	**– 31**	– 182	**– 113**
Financial result	**– 46**	**– 30**	**– 45**	**– 27**	**– 52**	**– 25**	**– 38**	**– 31**	**– 181**	**– 113**
Income before tax	**492**	**535**	**538**	**580**	**534**	**624**	**454**	**433**	**2,018**	**2,172**
Taxes on income	**– 122**	**– 132**	**– 133**	**– 148**	**– 132**	**– 155**	**– 105**	**– 112**	**– 492**	**– 547**
Net income	**370**	**403**	**405**	**432**	**402**	**469**	**349**	**321**	**1,526**	**1,625**
– Attributable to non-controlling interests	– 9	**– 10**	– 11	**– 14**	– 12	**– 11**	– 14	**– 1**	– 46	**– 36**
– Attributable to shareholders of Henkel AG & Co. KGaA	**361**	**393**	**394**	**418**	**390**	**458**	**335**	**320**	**1,480**	**1,589**
Earnings per preferred share in euros	**0.84**	**0.91**	**0.91**	**0.96**	**0.90**	**1.06**	**0.77**	**0.74**	**3.42**	**3.67**

in million euros	1st quarter 2012	1st quarter 2013	2nd quarter 2012	2nd quarter 2013	3rd quarter 2012	3rd quarter 2013	4th quarter 2012	4th quarter 2013	Full year 2012	Full year 2013
EBIT (as reported)	**538**	**565**	**583**	**607**	**586**	**649**	**492**	**464**	**2,199**	**2,285**
One-time gains	–	**–**	–	**– 10**	–	**–**	–	**–**	–	**– 10**
One-time charges	–	**5**	–	**36**	–	**4**	12	**37**	12	**82**
Restructuring charges	13	**30**	26	**27**	45	**19**	40	**83**	124	**159**
Adjusted EBIT	**551**	**600**	**609**	**660**	**631**	**672**	**544**	**584**	**2,335**	**2,516**
Adjusted earnings per preferred share in euros	**0.85**	**0.96**	**0.96**	**1.07**	**0.97**	**1.10**	**0.85**	**0.94**	**3.63**	**4.07**

The quarterly figures are specific to the quarter to which they refer and have been rounded for commercial convenience. Calculated on the basis of units of 1,000 euros.

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

Multi-year summary

in million euros		2007	2008 [1]	2009	2010	2011 restated [2]	2012 [3]	2013
Results of operations								
Sales		13,074	14,131	13,573	15,092	15,605	16,510	**16,355**
Laundry & Home Care		4,148	4,172	4,129	4,319	4,304	4,556	**4,580**
Beauty Care		2,972	3,016	3,010	3,269	3,399	3,542	**3,510**
Adhesive Technologies		5,711	6,700	6,224	7,306	7,746	8,256	**8,117**
Corporate		243	243	210	199	156	155	**148**
Gross margin		46.4	42.0	45.4	46.5	45.3	46.8	**47.7**
Research and development expenses		350	429	396	391	410	408	**415**
Operating profit (EBIT)		1,344	779	1,080	1,723	1,765	2,199	**2,285**
Laundry & Home Care		459	439	501	542	419	621	**682**
Beauty Care		372	376	387	411	471	483	**474**
Adhesive Technologies		621	658	290	878	1,002	1,191	**1,271**
Corporate		–108	–694	–98	–108	–127	–97	**–141**
Income before tax		1,250	1,627	885	1,552	1,610	2,018	**2,172**
Tax rate	in %	24.7	24.2	29.0	26.4	26.0	24.4	**25.2**
Net income		941	1,233	628	1,143	1,191	1,526	**1,625**
Net income attributable to shareholders of Henkel AG & Co. KGaA		921	1,221	602	1,118	1,161	1,480	**1,589**
Net return on sales [4]	in %	7.2	8.7	4.7	7.6	7.6	9.2	**9.9**
Interest coverage ratio [5]		9.4	4.8	8.7	12.8	14.0	14.3	**24.0**
Net assets								
Total assets		13,048	16,173	15,818	17,525	18,487	19,525	**19,344**
Non-current assets		7,931	11,360	11,162	11,590	11,848	11,927	**11,360**
Current assets		5,117	4,813	4,656	5,935	6,639	7,598	**7,984**
Equity		5,706	6,535	6,544	7,950	8,670	9,511	**10,158**
Liabilities		7,342	9,539	9,274	9,575	9,817	10,014	**9,186**
Equity ratio	in %	43.7	40.3	41.4	45.4	46.9	48.7	**52.5**
Return on equity [6]	in %	17.0	21.6	9.6	17.5	15.0	17.6	**17.1**
Operating debt coverage ratio [5]	in %	71.6	45.1	41.8	71.4	91.6 [7]	>500	**not calculable [8]**
Financial position								
Cash flow from operating activities		1,321	1,165	1,919	1,851	1,562	2,634	**2,116**
Capital expenditures		548	4,074	415	260	443	516	**467**
Investment ratio	as % of sales	4.2	28.8	3.0	1.7	2.8	3.1	**2.9**
Shares								
Dividend per ordinary share	in euros	0.51	0.51	0.51	0.70	0.78	0.93	**1.20 [9]**
Dividend per preferred share	in euros	0.53	0.53	0.53	0.72	0.80	0.95	**1.22 [9]**
Total dividends		227	227	227	310	345	411	**529 [9]**
Payout ratio	in %	24.6	24.0	27.6	25.5	25.5	25.6	**30.0 [9]**
Share price, ordinary shares, at year end	in euros	34.95 [10]	18.75	31.15	38.62	37.40	51.93	**75.64**
Share price, preferred shares, at year end	in euros	38.43 [10]	22.59	36.43	46.54	44.59	62.20	**84.31**
Market capitalization at year end	in bn euros	15.9	8.9	14.6	18.3	17.6	24.6	**34.7**
Employees								
Total [11]	(at December 31)	52,650	55,150	49,250	47,850	47,250	46,600	**46,850**
Germany	(number)	9,850	9,750	8,800	8,600	8,300	8,000	**8,050**
Abroad	(number)	42,800	45,400	40,450	39,250	38,950	38,600	**38,800**

[1] Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses.
[2] Application of IAS 8 "Accounting policies, changes in accounting estimates and errors" (see notes on pages 116 and 117 of the 2012 Annual Report).
[3] Adjusted in application of IAS 19 revised (see notes on page 116).
[4] Net income divided by sales.
[5] See page 65 for formula.
[6] Net income divided by equity at the start of the year.
[7] Adjusted using the new definition of net debt.
[8] Figure cannot be calculated due to our positive net financial position.
[9] Proposed.
[10] Basis: share split (1:3) of June 18, 2007.
[11] Basis: permanent employees excluding apprentices.

Glossary

Adjusted EBIT
Earnings Before Interest and Taxes (EBIT) 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
Capital invested in company assets and operations. Equity + interest-bearing liabilities.

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 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
The German Corporate Governance Code (abbreviation: DCGK) is intended to render the rules governing corporate management and control for a stock corporation in Germany 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.

Deferred taxes
In accordance with International Accounting Standard (IAS) 12, deferred taxes are recognized with respect to temporary differences between the statement of financial position 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, the reduction of borrowings and contributions to pension funds.

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.

Impairment
Impairments of assets are recorded when the recoverable amount is lower than the carrying amount at which the asset is recognized in the statement of financial position. The recoverable amount is calculated as the higher of fair value less costs to sell (net realizable value) and value in use.

IT risk
The international standard ISO/IEC 27001 "Information technology, Security techniques, Information security management systems, Requirements" specifies the requirements for establishing, implementing, operating, monitoring, reviewing, maintaining and improving a documented Information Security Management System within the context of an organization's overall IT risks. ISO/IEC 27002 additionally provides recommendations for designing the control mechanisms needed for information security.

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 and readily monetizable financial instruments classified as “available for sale” or in the “fair value option,” less positive and plus negative fair values of hedging transactions.

Net working capital
Net balance of inventories, trade receivables and trade payables.

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.

Operational Excellence
A comprehensive program to structure and optimize all Henkel’s business processes based on customer needs, quality and efficiency.

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.

Plan assets
Pension fund investment vehicles per definition under IAS 19 “Employee Benefits.”

Rating
Assessment of the creditworthiness of a company as published by rating agencies.

Return-enhancing portfolio
Contains investments in equities and alternative investments, and serves to improve the overall return of the pension plan assets over the long term in order to raise the coverage ratio of pension funds. In addition, a broader investment horizon increases the level of investment diversification.

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. Also known as EBIT margin.

Scope of consolidation
The scope of consolidation is the aggregate of companies incorporated in the consolidated financial statements.

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.

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.

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Financial calendar

Annual General Meeting
Henkel AG & Co. KGaA 2014:
Friday, April 4, 2014

Publication of Report
for the First Quarter 2014:
Wednesday, May 7, 2014

Publication of Report
for the Second Quarter / Half Year 2014:
Tuesday, August 12, 2014

Publication of Report
for the Third Quarter / Nine Months 2014:
Tuesday, November 11, 2014

Publication of Report
for Fiscal 2014:
Wednesday, March 4, 2015

Annual General Meeting
Henkel AG & Co. KGaA 2015:
Monday, April 13, 2015

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