Net assets and financial position

Acquisitions and divestments

Effective January 2, 2012, we acquired control of the distribution company Bella Vista A/S, Silkeborg, Denmark. This acquisition strengthens our existing hair salon business in Scandinavia. We hold 100 percent of the voting rights in the company. The purchase price paid was 5 million euros.

In the first quarter, we spent 7 million euros acquiring the outstanding non-controlling interests in Chemofast Anchoring GmbH, Willich, Germany, increasing our shareholding from 73 percent to 95 percent.

Effective August 1, 2012, we acquired the high-performance pressure sensitive adhesives business of Cytec Industries Inc., USA. The purchase price paid was 88 million euros. This acquisition is in keeping with our strategy to expand our core business, and strengthens our expertise in the field of high-performance adhesives.

In the second half of the year, we acquired the laundry detergent business of Colgate-Palmolive in the Dominican Republic for a purchase price of 20 million euros. This acquisition will enable us to grow our core business, and complements our existing distribution business in the Dominican Republic.

In 2012, we spent 3 million euros on the acquisition of outstanding non-controlling interests in Rilken Cosmetics Industry S.A., Athens, Greece. We increased our shareholding from 78 percent to 100 percent effective December 31, 2012. The company has since been delisted and merged into its parent, Henkel Hellas S.A., Athens, Greece.

We realized 3 million euros in the third quarter from the sale of non-core activities in the Adhesive Technologies business sector.

For further details of our acquisitions and divestments, please refer to pages 111 and 112 of the notes to the financial statements.

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 corresponding discussion on page 47.

Our long-term rating remains at “A flat” (Standard & Poor’s) and “A2” (Moody’s). These are also our target ratings. Looking forward, we intend not to jeopardize these when assessing potential acquisitions.

Capital expenditures

Capital expenditures (excluding acquisitions) in the year under review amounted to 422 million euros. Capital expenditures on property, plant and equipment for continuing operations amounted to 393 million euros, following 384 million euros in 2011. We invested 29 million euros in intangible assets (previous year: 9 million euros). The majority of these capital expenditures was attributable to the Adhesive Technologies and Laundry & Home Care business sectors. 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 sector was on consolidating production sites and expanding production capacities in emerging markets.

The major projects of 2012 were as follows:
- Construction of a production plant for pre-dosed liquid detergent capsules (“Mega-Caps”) in Körösladány, Hungary (Laundry & Home Care)
- Consolidation of production sites and expansion of production capacity in China (Adhesive Technologies)
- Construction of a production plant for automatic dishwashing products (Somat tabs) in Düsseldorf, Germany (Laundry & Home Care)
- Construction of a factory for the manufacture of construction products in Roznov, Romania (Adhesive Technologies)
- Consolidation and optimization of our IT system architecture for managing business processes in the Asia-Pacific region
- Construction of a customer and innovation center (“Lighthouse”) in Düsseldorf, Germany (Beauty Care).

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

Capital expenditures by business sector

- 36 % Laundry & Home Care
- 16 % Beauty Care
- 46 % Adhesive Technologies
- 2 % Corporate

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

First-time consolidation of entities resulted in additions to intangible assets and property, plant and equipment in the amount of 94 million euros. Details of these additions can be found on pages 111 and 112 of the notes to the consolidated financial statements.

Capital expenditures 2012

in million euros	Continuing operations	Acquisitions	Total
Intangible assets	29	90	119
Property, plant and equipment	393	4	397
Total	422	94	516

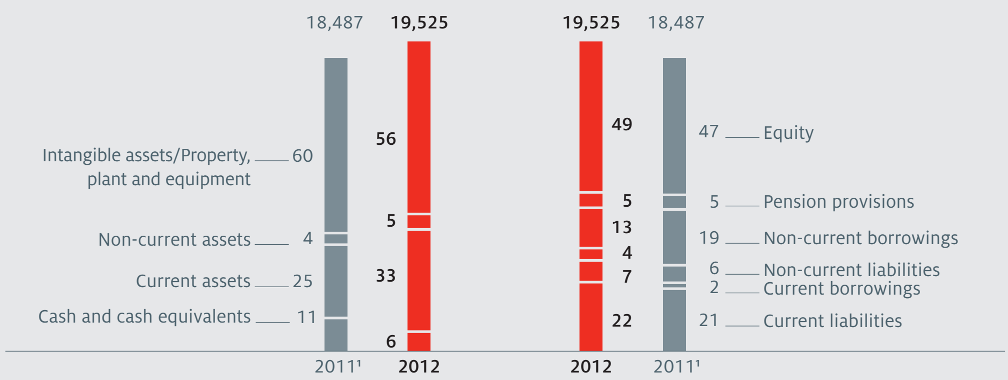
Net assets

Compared to year-end 2011, total assets increased significantly, by 1.0 billion to 19.5 billion euros. Under **non-current assets**, the value of intangible assets decreased by 124 million euros, primarily as a result of foreign currency translation and amortization. Additions to assets, on the other hand, resulted from acquisitions and capital expenditure on continuing operations. The figure for property, plant and equipment increased slightly, with capital expenditures of 393 million euros in continuing operations being offset by depreciation of 292 million euros and disposals with a book value of 16 million euros. Foreign currency translation caused the value of property, plant and equipment to decrease by 14 million euros.

Current assets increased from 6.6 billion euros to 7.6 billion euros. This is mainly attributable to a strong cash flow from operating activities. The high inflow of cash and cash equivalents was largely invested in securities and time deposits. Cash and cash equivalents decreased by 742 million euros to 1.2 billion euros, mainly as a result of these investments. Despite the higher business volume, inventories and trade accounts receivable remained largely unchanged.

Equity, including non-controlling interests, increased year on year by the net income for the year in the amount of 1,556 million euros. Dividend payments and actuarial losses caused equity

Financial structure
in million euros



[1] Application of IAS 8 "Accounting policies, changes in accounting estimates and errors" (see notes on pages 116 and 117).

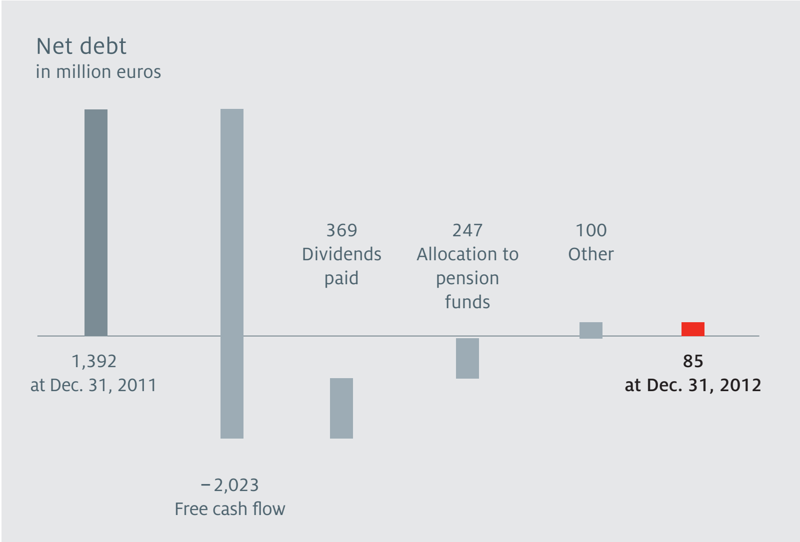
to decrease by 642 million euros in total. The changes are shown in detail in the consolidated statement of changes in equity on page 107. The equity ratio increased compared to the previous year by 1.8 percentage points to 48.7 percent.

The decline in **non-current liabilities** of 1.3 billion to 4.2 billion euros is primarily due to the reclassification of our senior bond maturing in June 2013 with a redemption value of 1.0 billion euros as current borrowings. As of December 31, 2012, our non-current borrowings include two bonds: a senior bond with a redemption value of 1 billion euros, and a hybrid bond with a redemption value of 1.3 billion euros. Pension obligations decreased by 38 million euros in fiscal year 2012. Actuarial losses of 421 million euros caused by lower discount rates for the obligations were offset by allocations of 362 million euros to pension funds. The pension plan assets also increased significantly as a result of the return on investment.

The rise in **current liabilities** of 1.5 billion to 5.8 billion euros is due both to the reclassification of the senior bond as current borrowings, and to higher trade accounts payable.

When investing our financial funds, we ensure appropriate risk spreading. Consequently, in addition to investments reported as cash and cash equivalents in the statement of financial position, we also invest in interest-bearing securities and time deposits. In the future, we intend to further increase the proportion allocated to such securities and time deposits. To improve the presentation of the financial position of the Group, we therefore adjusted the definition of our **net debt**[1] in 2012 and included securities and time deposits.

We reduced our net debt to 85 million euros as of December 31, 2012 (December 31, 2011: 1,392 million euros). With the improvement in net income for the year and the decrease in our indebtedness, operating debt coverage increased to 495.7 percent in the reporting period, placing it well above the target of 50 percent. Our interest coverage ratio also improved further due to an increase in EBITDA (earnings before interest, taxes, depreciation, amortization and impairment).



Financial position

Cash flow from operating activities totaled 2,634 million euros in fiscal year 2012, which was significantly higher than the figure of 1,562 million euros in the previous year. This increase was partly due to the increased operating profit, and partly to high cash inflows (283 million euros) from net working capital. In the previous year, the net working capital figure had been burdened by a cash outflow of –105 million euros. Net working capital amounted to 5.2 percent of sales and was thus –2.1 percentage points below the level prevailing at the end of the prior-year period (7.3 percent).

The cash outflow in the **cash flow from investing activities** (–479 million euros) was 182 million euros above the figure for the previous year. This was mainly due to increased expenditures on acquisitions compared to the previous year. There were also lower proceeds arising from the disposal of subsidiaries and other business units.

The cash outflow in the **cash flow from financing activities** (–2,858 million euros) was mainly due to the investments in short-term securities and time deposits (–1,849 million euros) recognized under other financing transactions. The increase in dividends paid and allocations to pension funds also led to increased outflow.

[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.

Cash and cash equivalents decreased compared to December 31, 2011, by –742 million euros to 1,238 million euros. This was mainly due to reallocations of cash and cash equivalents to securities and time deposits.

The increase in **free cash flow** by 1,072 million euros to 2,023 million euros was due to significantly higher cash flow from operating activities compared to the previous year (951 million euros).

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 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 our ordinary and our preferred shares compared to the previous year. Cash flows not required for capital expenditures, dividends and interest payments are used for reducing net debt, allocating to pension funds and financing acquisitions. We cover our short-term financing requirement primarily with commercial papers and bank loans. Our multi-currency commercial paper program is additionally secured by a syndicated credit facility. The outstanding bonds serve to cover long-term financing requirements.

Our financial management is based on the financial ratios defined in our financial strategy (see page 67). Due to the international orientation of our businesses, we must comply with a variety of statutory and regulatory provisions, depending on the region concerned. The current status and changes to these provisions are centrally monitored and any changes are taken into account in our capital management decision-making.

Our creditworthiness is regularly checked by 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). This means that both Standard & Poor's and Moody's continue to assign Henkel an investment grade rating, the best possible category.

Credit ratings

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

At Dec. 31, 2012.

As of December 31, 2012, our non-current borrowings amounted to 2,454 million euros. Included in this figure are the hybrid bond issued in November 2005 with a nominal value of 1.3 billion euros, and the fixed-interest bond issued in March 2009 with a nominal value of 1.0 billion euros. Our current borrowings – i.e. those with maturities of less than 12 months – amounted to 1,320 million euros on the reporting date, and comprised the fixed-interest bond issued in May 2003 with a nominal value of 1 billion euros, together with interest-bearing bank loans and credits.

We used the cash flow from operating activities for investments in securities and time deposits, and allocations to pension funds. Overall, we have further reduced net debt by a significant amount. The hybrid bond is treated as 50 percent equity by Standard & Poor's and – following a change in valuation method – also by Moody's. This treatment benefits the rating-specific debt ratios of the Group (see table of key financial ratios).

For further information on our financial instruments, please refer to pages 138 to 148 of the notes to the consolidated financial statements.

Henkel's financial risk management activities are explained in detail in our financial instruments reporting on pages 138 to 148 of the notes to the consolidated financial statements and on pages 92 to 98 of the risk report.

Key financial ratios

Due to a reduction in our indebtedness, our operating debt coverage increased to 495.7 percent in 2012, bringing it well above our minimum value of 50 percent. Our interest coverage ratio, i.e. EBITDA divided by net interest expense, also improved further, aided by a higher EBITDA and lower interest expense. And our equity ratio similarly reflects the high financial strength of the Group.

Key financial ratios

	2011 restated[1]	2012
Operating debt coverage[2] (Net income + Amortization and depreciation, impairment and write-ups + Interest element of pension obligations) / Net borrowings and pension obligations	91.6 %	**495.7 %**
Interest coverage ratio (EBITDA / Net interest expense including interest element of pension provisions)	14.0	**18.4**
Equity ratio (Equity / Total assets)	46.9 %	**48.7 %**

[1] Application of IAS 8 "Accounting policies, changes in accounting estimates and errors" (see notes on pages 116 and 117).
[2] Hybrid bond included on a 50 percent debt basis only. Prior-year figures adjusted to reflect changed definition of net borrowings.