9.5 %
Group WACC before tax in fiscal 2012.

Value-based management and control system

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

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

Operational business performance is measured based on operating profit (EBIT) before deduction of any goodwill impairment losses. The capital employed figure is calculated from the asset side of the statement of financial position. A reconciliation of the year-end figures in the statement of financial position and the average values used to determine capital employed can be found on page 156.

Cost of capital

The cost of capital is calculated as a weighted average of the cost of equity and debt capital (WACC). In fiscal year 2012 we used a WACC before tax of 9.5 percent. After tax, the figure was 6.5 percent. We regularly review our cost of capital in order to reflect changing market conditions. Starting in fiscal 2013, we are using a WACC of 8.0 percent before tax and 5.5 percent after tax. In determining the capitalization rate, we raised the market risk premium from 4.5 to 5.5 percent to take account of the financial market crisis.

We apply different WACC rates depending on the business sector involved. These are based on sector-specific beta factors determined from a peer group benchmark. In fiscal 2012, this resulted in a WACC before tax of 9.5 percent (6.5 percent after tax) for both Laundry & Home Care and Beauty Care, and of 11.5 percent before tax (8.0 percent after tax) for Adhesive Technologies. In 2013 we are using a WACC of 7.5 percent before tax (5.25 percent after tax) for the Laundry & Home Care and Beauty Care business sectors, and 10.5 percent before tax (7.25 percent after tax) for Adhesive Technologies.

Weighted average cost of capital (WACC)

	2012	from 2013
Risk-free interest rate	3.5 %	2.25 %
Market risk premium	4.5 %	5.5 %
Beta factor	0.8	0.7
Cost of equity after tax	**7.1 %**	**6.1 %**
Cost of debt capital before tax	4.7 %	3.2 %
Tax shield (30 %)	– 1.4 %	– 1.0 %
Cost of debt capital after tax	**3.3 %**	**2.2 %**
Share of equity[1] (peer group structure)	85 %	85 %
Share of debt capital[1] (peer group structure)	15 %	15 %
WACC after tax[2]	**6.5 %**	**5.5 %**
Tax rate	30 %	30 %
WACC before tax[2]	**9.5 %**	**8.0 %**

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

WACC before tax by business sector

	2012	from 2013
Laundry & Home Care	9.5 %	7.5 %
Beauty Care	9.5 %	7.5 %
Adhesive Technologies	11.5 %	10.5 %

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

EVA® and ROCE

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

We calculate EVA® as follows:

EVA® = EBIT * – (Capital Employed x WACC).

In order to be better able to compare business units of varying size, we additionally apply return on capital employed, calculated as follows:

ROCE = EBIT * / Capital Employed.

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

In fiscal 2012, the Henkel Group generated positive economic value added (EVA®) of 1,083 million euros, a year-on-year increase of 326 million euros (+43.0 percent). This is mainly attributable to the strong rise in operating profit. All our business sectors recorded positive EVA®. Laundry & Home Care generated EVA® of 393 million euros, a significant increase of 85.7 percent versus 2011, achieved thanks to a substantial increase in operating profit. At 285 million euros, the EVA® generated by Beauty Care was down slightly by – 1.9 percent year on year, due to an increase in capital employed and an essentially stable operating profit. At Adhesive Technologies, we substantially increased our EVA® by 28.5 percent to 363 million euros due to a significant improvement in operating profit.

ROCE increased from 15.8 percent to 18.7 percent. This is essentially due to the very large increase in operating profit.

1,083 million euros
economic value added (EVA®) in 2012.

EVA® and ROCE [1]

in million euros	Laundry & Home Care	Beauty Care	Adhesive Technologies	Henkel Group
EBIT *	621	483	1,191	**2,199**
Capital employed	2,409	2,084	7,204	**11,751**
Cost of capital [2]	**229**	**198**	**828**	**1,116 [3]**
EVA® 2012	**393**	**285**	**363**	**1,083 [3]**
EVA® 2011	211 [4]	290	282	**757 [4,5]**
ROCE 2012	**25.8 %**	**23.2 %**	**16.5 %**	**18.7 %**
ROCE 2011	18.2 % [4]	23.5 %	14.6 %	**15.8 % [4]**

[1] Calculated on the basis of units of 1,000 euros.
[2] Calculated on the basis of the different sector-specific WACC rates applied.
[3] Calculated on the basis of a WACC of 9.5 percent for the Henkel Group.
[4] Application of IAS 8 “Accounting policies, changes in accounting estimates and errors” (see notes on pages 116 and 117).
[5] Calculated on the basis of a WACC of 9.0 percent for the Henkel Group.

* Adjusted for goodwill impairment losses.