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, 2011	1,240	1,517	168	6,532	9,457
Acquisitions	–	3	–	47	50
Divestments	–	–	–	– 5	– 5
Additions	–	5	4	–	9
Disposals	–	– 14	–	–	– 14
Reclassifications into assets held for sale	– 27	–	–	–	– 27
Reclassifications	–	1	–	–	1
Translation differences	35	26	2	149	212
At December 31, 2011 / 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	1,242	1,537	200	6,672	9,651

[1] Of which: 1 million euros in cost and 0 million euros amortization arising from reclassification from assets held for sale, as their 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, 2011	13	713	79	11	816
Divestments	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	81	21	–	102
Impairment losses	–	–	–	–	–
Disposals	–	– 14	–	–	– 14
Reclassifications into assets held for sale	–	–	–	–	–
Reclassifications	–	–	–	–	–
Translation differences	–	9	1	–	10
At December 31, 2011 / 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	13	861	121	11	1,006

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, 2012	1,229	676	79	6,661	8,645
At December 31, 2011	1,235	749	73	6,712	8,769

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 on 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.

For subsequent measurement, goodwill and trademark rights and other rights with indefinite useful lives are subjected to an impairment test at least once a year ("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 and trademark rights and other rights with indefinite useful lives at book value at the reporting date. The description of the cash-generating units can be found in the notes to the consolidated financial statements, Note 34 on pages 154 to 156 and in the Group management report on pages 80 to 91.

Book values

	December 31, 2011		December 31, 2012	
Cash-generating units (summarized) in million euros	Trademark and other rights with indefinite useful lives	Goodwill	Trademark and other rights with indefinite useful lives	Goodwill
Laundry	372	700	381	689
Home Care	249	797	244	788
Total Laundry & Home Care	**621**	**1,497**	**625**	**1,477**
Branded Consumer Goods	467	1,073	460	1,058
Hair Salon	13	96	13	100
Total Beauty Care	**480**	**1,169**	**473**	**1,158**
Adhesives for Consumers, Craftsmen and Building	49	408	48	394
Industrial Adhesives	85	3,638	83	3,632
Total Adhesive Technologies	**134**	**4,046**	**131**	**4,026**

The assessment for goodwill impairment according to the fair-value-less-cost-to-sell approach is based on future estimated cash flows which are obtained from corporate budgets. The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of three years. For the period after that, a growth rate in a 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 1.30. 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 sector: 5.25 percent after tax for Laundry & Home Care and Beauty Care, and 7.25 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 2012 amounted to 1,880 million euros (previous year: 1,857 million euros), while goodwill at Transport, Metal, General Industry and Electronics had a value of 1,752 million euros in 2012 (previous year: 1,781 million euros).

In the Laundry & Home Care business sector, 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 sector 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 sector are expected to grow by about 6 percent per annum on average over the detailed three-year forecasting horizon, and thus above the market average.

In all the business sectors, 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 sectors.

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

The trademark rights with indefinite useful lives are established in their markets and will continue to be intensively promoted. Moreover, there are no other statutory, regulatory or competition-related factors that limit our usage of our brandnames. The value of trademarks and other rights with indefinite useful lives attributable to our Industrial Adhesives segment is composed of 42 million euros (previous

year: 43 million euros) for our Packaging, Consumer Goods and Construction Adhesives businesses, and 41 million euros (previous year: 42 million euros) for our Transport, Metal, General Industry and Electronics businesses.

As in the previous year, the impairment tests on trademark rights and other rights with indefinite useful lives resulted in no impairment losses.

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 2012.

(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, 2011	2,002	2,687	934	96	5,719
Acquisitions	–	–	–	–	–
Divestments	– 7	– 14	– 5	–	– 26
Additions	32	80	61	211	384
Disposals	– 40	– 134	– 82	– 1	– 257
Reclassifications into assets held for sale [1]	– 9	1	1	–	– 7
Reclassifications	13	52	16	– 82	– 1
Translation differences	7	– 4	2	3	8
At December 31, 2011 / 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	2,038	2,763	949	216	5,966

[1] Of which in previous year: 4 million euros acquisition costs and 2 million euros write-downs arising from reclassification of assets held for sale, as disposal is no longer intended.

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, 2011	**882**	**1,915**	**707**	**–**	**3,504**
Divestments	– 3	– 12	– 4	–	– 19
Write-ups	– 1	–	–	–	– 1
Scheduled depreciation	54	145	82	–	281
Impairment losses	9	11	1	–	21
Disposals	– 24	– 125	– 80	–	– 229
Reclassifications into assets held for sale[1]	– 6	1	1	–	– 4
Reclassifications	–	– 1	1	–	–
Translation differences	2	– 1	2	–	3
At December 31, 2011 / 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	**954**	**1,977**	**721**	**–**	**3,652**

[1] Of which in previous year: 4 million euros acquisition costs and 2 million euros write-downs arising from reclassification of assets held for sale, as disposal is no longer intended.

Net book values

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in course of construction	Total
At December 31, 2012	**1,084**	**786**	**228**	**216**	**2,314**
At December 31, 2011	1,085	735	217	227	2,264

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 pages 63 and 64 in the Group Management Report.

At December 31, 2012, 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 120. Scheduled depreciation and impairment losses recognized are disclosed in the consolidated statement of income according to the functions in which the assets are used.

Of the impairment losses amounting to 12 million euros, further structure optimization measures attributable to the Laundry & Home Care business sector accounted for 4 million euros. In the Adhesive Technologies business sector, impairment losses of 7 million euros were recognized as a result of production optimization measures.

(3) Other financial assets

Analysis

	December 31, 2011			December 31, 2012		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Receivables from associated companies	1	5	6	–	1	1
Financial receivables from third parties	23	22	45	15	44	59
Derivative financial instruments	194	70	264	204	54	258
Investments accounted for at equity	–	–	–	6	–	6
Other investments	19	–	19	18	–	18
Receivable from Henkel Trust e.V.	–	115	115	–	20	20
Securities and time deposits	–	362	362	–	2,245	2,245
Sundry financial assets[1] (restated)	9	82	91	15	79	94
Total (restated)[1]	**246**	**656**	**902**	**258**	**2,443**	**2,701**

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

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

In the reporting year, the accrued interest on derivative financial instruments in connection with the interest rate swap in the amount of 65 million euros (previous year: 62 million euros) is reported in accordance with the term of the underlying interest rate hedging transactions.

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. In fiscal 2012, Henkel AG & Co. KGaA waived existing receivables of 213 million euros and thus made a further contribution to pension plan assets.

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 38 million euros (previous year: 31 million euros),
- Receivables from suppliers amounting to 13 million euros (previous year: 15 million euros),
- Receivables from employees amounting to 9 million euros (previous year: 10 million euros).

(4) Other assets

Analysis

	December 31, 2011			December 31, 2012		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Tax receivables	–	123	123	7	117	124
Payments on account	–	21	21	–	20	20
Overfunding of pension obligations	4	–	4	4	–	4
Reimbursement rights related to employee benefits	79	9	88	84	5	89
Accruals	5	46	51	6	56	62
Sundry other assets	15	38	53	16	18	34
Total	**103**	**237**	**340**	**117**	**216**	**333**

The reimbursement rights related to employee benefits are related 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 150 to 152.

(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. 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 119 million euros (previous year: 105 million euros). The carrying amount of inventories pledged as security for liabilities amounted to 6 million euros.

Analysis of inventories

in million euros	December 31, 2011	December 31, 2012
Raw materials and supplies	475	471
Work in progress	61	62
Finished products and merchandise	1,010	942
Payments on account for merchandise	4	3
Total	**1,550**	**1,478**

(7) Trade accounts receivable

Trade accounts receivable amounted to 2,021 million euros (previous year: 2,001 million euros). All such receivables are due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Overall, the total valuation allowances recognized amount to 30 million euros (previous year: 23 million euros).

Trade accounts receivable

in million euros	December 31, 2011	December 31, 2012
Trade accounts receivable, gross	2,101	2,130
less: cumulative valuation allowances on trade accounts receivable	100	109
Trade accounts receivable, net	**2,001**	**2,021**

Development of valuation allowances on trade accounts receivable

in million euros	2012
Valuation allowances at January 1	100
Additions	27
Transfer of receivables against valuation allowance accounts	– 17
Currency translation effects	– 1
Valuation allowances at December 31	109

(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 investments 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 1,980 million euros to 1,238 million euros. Of this figure, 913 million euros (previous year: 829 million euros) relate to cash and 325 million euros (previous year: 1,151 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.

Compared to December 31, 2011, assets held for sale decreased by 13 million euros to 38 million euros. The reduction is due in part to the transfer of non-core brands in the Beauty Care business sector to the buyer with economic effect as of April 2, 2012. The disposal had no effect on income. Furthermore, sales of other Group companies also took place. A countervailing increase resulted from the reclassification of the assets and liabilities of Chemofast Anchoring GmbH, Willich, Germany, into assets and liabilities held for sale. The transfer of the company to the buyer is planned for January 2013. In the Adhesive Technologies business sector we have reclassified the assets of our non-core print finishing applications business, which we intend to sell, as assets held for sale. Certain non-current assets of various Group companies have also been reclassified. Furthermore, assets with a carrying amount of 1 million euros were reclassified back to intangible assets as their sale is no longer intended.

Assets and liabilities held for sale

January 1 to December 31 in million euros	2012
Intangible assets and property, plant and equipment	23
Inventory and trade receivables	9
Cash and cash equivalents	1
Other assets	5
Provisions	– 3
Borrowings	– 3
Other liabilities	– 3
Net assets	29

(10) Issued capital

Issued capital

in million euros	December 31, 2011	December 31, 2012
Ordinary bearer shares	260	260
Preferred bearer shares	178	178
Capital stock	438	438

Comprising:
259,795,875 ordinary shares, 178,162,875 non-voting preferred shares.

All the shares are fully paid in. The ordinary and preferred shares are bearer shares of no par value, each of which represents a nominal proportion of the capital stock amounting to 1 euro. The liquidation proceeds are the same for all shares. The number of ordinary shares issued has remained unchanged since December 31, 2011. The number of preferred shares in circulation increased by 95,600 to 174,482,305 due to the exercise of option rights from stock incentive plans during the fiscal year, accompanied by a corresponding decrease in the number of treasury shares.

According to Art. 6 (5) of the Articles of Association, the Personally Liable Partner is authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital of the corporation in one or more installments at any time until April 18, 2015, up to a total of 25.6 million euros (25.6 million shares) by issuing new non-voting preferred shares to be paid up in cash (authorized capital). All shareholders are essentially assigned pre-emptive rights. However, these may be set aside where necessary in order to grant to holders of bonds with warrants or conversion rights issued by the corporation, or one of the companies dependent upon it, pre-emptive rights to new shares corresponding to those that would accrue to such bondholders following the exercise of their warrant or conversion rights, or if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing. Pre-emptive rights may also be set aside where necessary in order to dispose of fractional amounts.

On April 19, 2010, the Annual General Meeting of Henkel AG & Co. KGaA resolved to authorize the Personally Liable Partner to acquire, by April 18, 2015, ordinary or preferred shares of the corporation representing a nominal proportion of the capital stock of not more than 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may be used to operate the Stock Incentive Plan of the Henkel Group or transferred to third parties for the purpose of acquiring companies or investing in companies. Treasury 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 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, 2012 amounted to 3,680,570 preferred shares. This represents 0.84 percent of capital stock and a proportional nominal value of 3.7 million euros. The treasury shares were acquired in order to service the option rights arising from the Stock Incentive Plans. Originally, 992,680 shares were purchased in 2000, 808,120 shares in 2001 and 694,900 shares in 2002. This corresponds to a total of 2,495,700 shares or, following the share split implemented in 2007 (at a ratio of 1:3), 7,487,100 shares. Options were exercised for the first time under the Stock Incentive Plan in 2004. Since 2004, taking the share split into account, the exercise of options has led to a reduction of 3,806,530 in treasury shares held, with a proportional nominal value of 3.8 million euros (0.87 percent of capital stock). In 2012 the exercise of options led to a reduction of 95,600 in treasury shares held. The proportional nominal value of the capital stock amounted to 0.1 million euros (0.02 percent). The selling prices were based on the stock market prices prevailing at the time of disposal. The total proceeds on disposal of 5 million euros were recognized directly in equity.

See also the explanatory notes on pages 26 and 27 of the management report.

(11) Capital reserve

The capital reserve comprises the amounts received in previous years in excess of the nominal value of preferred shares and convertible warrant bonds issued by Henkel AG & Co. KGaA.

(12) Retained earnings

Included in the retained earnings are the following:
- Amounts allocated in the financial statements of Henkel AG & Co. KGaA in previous years.
- Amounts allocated from the consolidated net income less those amounts attributable to non-controlling interests.
- Buy-back of treasury shares by Henkel AG & Co. KGaA at cost and the proceeds from their disposal.
- Actuarial gains and losses recognized in equity.
- 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 2012, please see the section "Acquisitions and divestments" on pages 111 to 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 revenue-neutral valuation of financial assets in the "Available for sale" category and of derivative financial instruments for which hedge accounting is used. The latter are derivatives used in connection with cash flow hedges or hedges of a net investment in a foreign entity. Due in particular to the depreciation of the US dollar versus the euro, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation grew by –144 million euros compared to the figure at December 31, 2011, to – 806 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 earnings of the person entitled.

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.

In addition, we also subsidize medical benefits for retired employees resident 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.

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 financing, 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 average weighted duration of pension obligations is 13 years for Germany, 9 years for the USA and 22 years for other countries. The contributions and investment strategies are intended to ensure nearly complete coverage of the plans for the duration of the pension obligations.

The defined contribution plans are structured in such a way that the corporation pays contributions to public or private sector institutions on the basis of statutory or contractual terms or on a voluntary basis and has no further obligations regarding the payment of benefits to employees. The contributions for defined contribution plans for the year under review amounted to 90 million euros (previous year: 90 million euros). In 2012, payments to public sector institutions totaled 48 million euros (previous year: 50 million euros) and payments to private sector institutions totaled 42 million euros (previous year: 40 million euros).

In defined benefit plans, the liability for pensions and other post-employment benefits is calculated at the present value of the future obligations (projected unit credit method). This actuarial method of calculation takes future trends in wages, salaries and retirement benefits into account.

The mortality rates used are based on published statistics and actuarial data as applicable in each country. In Germany, the assumptions are based on the "Heubeck 2005G" mortality table. In the USA, the assumptions are based on the "RP 2000 projected to 2015" mortality table.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have 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 2012, existing pension benefits in Ireland and the Netherlands were partly unified. In Japan, the pension benefits were subject to new legal regulations. The effects of the plan changes were recognized as income in other operating income. Plan changes had no material impact on our pension obligations.

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. 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).

Actuarial assumptions

in percent	Germany		USA		Other countries[1]	
	2011	2012	2011	2012	2011	2012
Discount factor	4.30	**3.00**	4.40	**3.80**	4.20	**4.20**
Income trend	3.25	**3.25**	4.25	**4.25**	3.10	**3.00**
Expected return on plan assets	5.69	**5.62**	5.80	**5.88**	3.80	**4.11**
Expected return from reimbursement rights	–	**–**	6.50	**4.40**	–	**–**
Expected increases in costs for medical benefits	–	**–**	8.50	**8.00**	8.00	**6.30**

[1] Weighted average.

Present value of pension obligations at December 31, 2011

in million euros	Germany	USA	Other countries	Total
At January 1, 2011	**2,223**	**1,018**	**762**	**4,003**
Changes in the Group	– 1	1	– 3	**– 3**
Translation differences	–	41	14	**55**
Actuarial gains (–)/losses (+)	59	121	56	**236**
Current service cost	35	16	27	**78**
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	– 1	– 2	**– 3**
Interest expense	97	49	33	**179**
Retirement benefits paid out of plan assets/out of reimbursement rights	– 119	– 54	– 30	**– 203**
Employer’s payments for pension obligations	– 25	– 21	– 14	**– 60**
Past service cost (+)/gain (–)	–	– 1	3	**2**
At December 31, 2011	**2,269**	**1,169**	**846**	**4,284**
of which: unfunded obligations	105	208	92	**405**
of which: funded obligations	2,164	867	754	**3,785**
of which: obligations covered by reimbursement rights	–	94	–	**94**

Fair value of plan assets at December 31, 2011

in million euros	Germany	USA	Other countries	Total
At January 1, 2011	**2,098**	**686**	**603**	**3,387**
Changes in the Group	–	–	– 3	**– 3**
Translation differences	–	24	13	**37**
Employer contributions to pension funds	23	–	23	**46**
Employee contributions to pension funds	–	–	1	**1**
Retirement benefits paid out of plan assets	– 119	– 46	– 30	**– 195**
Expected return on plan assets	119	35	26	**180**
Actuarial gains (+)/losses (–)	– 188	29	9	**– 150**
At December 31, 2011	**1,933**	**728**	**642**	**3,303**
Actual return on plan assets	– 69	64	35	**30**

Fair value of reimbursement rights at December 31, 2011

in million euros	Germany	USA	Other countries	Total
At January 1, 2011	**–**	**90**	**–**	**90**
Changes in the Group	–	–	–	**–**
Translation differences	–	2	–	**2**
Employer contributions	–	–	–	**–**
Employee contributions	–	–	–	**–**
Retirement benefits paid out of reimbursement rights	–	– 7	–	**– 7**
Expected return on reimbursement rights	–	4	–	**4**
Actuarial gains (+)/losses (–)	–	– 5	–	**– 5**
At December 31, 2011	**–**	**84**	**–**	**84**
Actual return on reimbursement rights	–	– 1	–	**– 1**

Net pension cost 2011

in million euros	Germany	USA	Other countries	Total
Current service cost	35	16	27	78
Amortization of past service cost	–	–	–	–
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	– 1	– 2	– 3
Interest expense	97	49	33	179
Expected return on plan assets	– 119	– 35	– 26	– 180
Expected return on reimbursement rights	–	– 4	–	– 4
Net pension cost 2011	**13**	**25**	**32**	**70**

Reconciliation of overfunding/underfunding to recognized provisions for pension obligations and to net obligation at December 31, 2011

in million euros	Germany	USA	Other countries	Total
Overfunding/underfunding of obligations	– 336	– 441	– 204	– 981
Amount not recognized due to asset ceiling	–	–	– 9	– 9
Past service cost	–	– 5	1	– 4
Reimbursement rights	–	84	–	84
Net obligation	**– 336**	**– 362**	**– 212**	**– 910**
Plan assets reported as net assets	–	–	– 4	– 4
Recognized as reimbursement rights (asset)	–	– 84	–	– 84
Recognized provision for pension obligations at December 31, 2011	**– 336**	**– 446**	**– 216**	**– 998**

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
Current service cost	37	19	27	83
Employee contributions to pension fund	–	–	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

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 to pension funds	–	–	1	1
Retirement benefits paid out of plan assets	– 36	– 45	– 53	– 134
Expected return on plan assets	115	38	26	179
Actuarial gains (+)/losses (–)	126	37	38	201
At December 31, 2012	**2,373**	**822**	**705**	**3,900**
Actual return on plan assets	241	75	64	380

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
Expected return on reimbursement rights	–	4	–	4
Actuarial gains (+)/losses (–)	–	6	–	6
At December 31, 2012	**–**	**89**	**–**	**89**
Actual return on reimbursement rights	–	10	–	10

Net pension cost 2012

in million euros	Germany	USA	Other countries	Total
Current service cost	37	19	27	83
Amortization of past service cost	–	–	–	–
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 15	– 15
Interest expense	96	50	35	181
Expected return on plan assets	– 115	– 38	– 26	– 179
Expected return on reimbursement rights	–	– 4	–	– 4
Net pension cost 2012	**18**	**27**	**21**	**66**

Reconciliation of overfunding/underfunding to recognized provisions for pension obligations and to net obligation at December 31, 2012

in million euros	Germany	USA	Other countries	Total
Overfunding/underfunding of obligations	– 311	– 404	– 235	– 950
Amount not recognized due to asset ceiling	–	–	– 2	– 2
Past service cost	–	– 5	1	– 4
Reimbursement rights	–	89	–	89
Net obligation	**– 311**	**– 320**	**– 236**	**– 867**
Plan assets reported as net assets	–	–	– 4	– 4
Recognized as reimbursement rights (asset)	–	– 89	–	– 89
Recognized provision for pension obligations at December 31, 2012	**– 311**	**– 409**	**– 240**	**– 960**

Exercising the elective right that exists, we recognize actuarial gains and losses in the year in which they arise as part of the pension provision and include them in the statement of comprehensive income in accordance with IAS 19.93B "Employee Benefits." Hence, the full extent of the obligation is recognized as of the reporting date. As of December 31, 2012, accumulated actuarial losses of 1,883 million euros (previous year: 1,475 million euros) were offset against retained earnings. Of the actuarial losses in the reporting period, 7 million euros result from effects per IAS 19.58.

In the reconciliation to the net obligation 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 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 et seq.).

Of the amounts added to the provision in 2012, 83 million euros (previous year: 78 million euros) are included in operating profit (pension costs as part of payroll cost, see page 153) and 2 million euros (previous year: 5 million euros) in financial result (see page 150). The expenses shown in operating profit are allocated by function, depending on the sphere of activity of the employees. All gains/losses from the termination and curtailment of plans have been recognized in other operating income/charges. The employer's contributions in respect of state pension provisions are included as "Social security contributions and staff welfare costs" under Note 32, page 153. In 2012, payments into the plan assets amounted to 362 million euros (previous year: 46 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 2013 are expected to total 23 million euros.

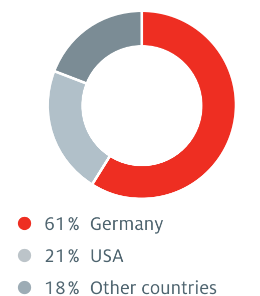
Description of plan assets

Analysis of plan assets

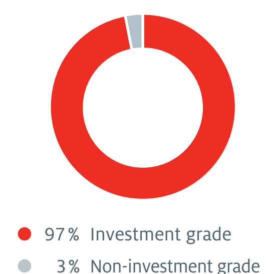
	December 31, 2011		December 31, 2012	
in million euros	Fair value	%	Fair value	%
Shares	828	25.1	896	23.0
Europe	355	10.7	358	9.2
USA	138	4.2	156	4.0
Others	335	10.2	382	9.8
Bonds and hedging instruments	2,054	62.2	2,359	60.5
Government bonds	646	19.5	747	19.2
Corporate bonds	1,488	45.1	1,708	43.8
Derivatives	– 80	– 2.4	– 96	– 2.5
Alternative investments	149	4.5	240	6.1
Cash	192	5.8	214	5.5
Liabilities[1]	– 115	– 3.5	– 20	– 0.5
Other assets	195	5.9	211	5.4
Total	3,303	100.0	3,900	100.0

[1] Liability to Henkel AG & Co. KGaA from the takeover of pension payments for Henkel Trust e.V.

Plan assets by country 2012



Classification of bonds by rating 2012



The objective of the investment strategy of 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 cover 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 result in adjustments being 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, the USA, the UK, Ireland and the Netherlands. All these countries pursue the above investment strategies and are monitored centrally.

At December 31, 2012, 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 140 million euros against BASF Personal Care & Nutrition GmbH (formerly Cognis GmbH) for indemnification of pension obligations (previous year: 132 million euros).

In 2012, Henkel AG & Co. KGaA waived existing receivables against Henkel Trust e.V. in the amount of 213 million euros.

Sensitivities and cash flows

In the next five financial years, the payments expected to be paid out of pension plans are as follows:

Future pension payments

in million euros	Germany	USA	Other countries	Total
2013	145	143	33	**321**
2014	135	181	34	**350**
2015	132	91	34	**257**
2016	130	89	35	**254**
2017	129	88	36	**253**

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 81 percent of our pension obligations. The effect of a change in the discount rate on the calculation of the present value of pension obligations is as follows:

Effect of discount rate changes on the present value of pension obligations

in million euros	Germany	USA
Present value of obligations	2,684	1,226
Increase of 0.5 percentage points	– 167	– 49
Decrease of 0.5 percentage points	178	55

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 8.0 percent (previous year: 8.5 percent) was assumed for the medical costs. We expect this rate of increase to fall gradually to 5.0 percent by 2018 (previous year: 5.0 percent). The effects of a trend change in medical costs are as follows:

Effects of a trend change in medical costs

	December 31, 2011			December 31, 2012		
in million euros	Current service cost	Interest expense	Present value of obligations	Current service cost	Interest expense	Present value of obligations
Increase in medical costs of 1 percentage point	–	–	8	**–**	**–**	**8**
Decrease in medical costs of 1 percentage point	–	–	– 7	**–**	**–**	**– 7**

The following overview shows the present value of the obligations and the corresponding health care obligations for current and prior reporting periods. The adjustments in expectations reflect the difference between the actuarial assumptions at the beginning of the fiscal year and the actual development of the pension obligations and plan assets.

Multi-year summary

in million euros	2008	2009	2010	2011	2012
Present value of obligations	3,248	3,684	4,003	4,284	4,850
of which: post-retirement health care obligations	212	199	191	196	187
Fair value of plan assets	2,445	2,840	3,387	3,303	3,900
of which: for post-retirement health care obligations	8	7	7	6	7
Overfunding/underfunding of obligations	– 803	– 844	– 616	– 981	– 950
Experience adjustments on pension obligations	5	25	9	5	16
Experience adjustments on plan assets	– 499	53	214	– 150	– 201

(16) Income tax provisions and other provisions

Development in 2012

in million euros	Initial balance January 1, 2012	Other changes	Utilized	Released	Added	End balance December 31, 2012
Income tax provisions	402	– 6	177	78	114	255
of which: non-current	93	– 1	19	8	1	66
of which: current	309	– 5	158	70	113	189
Restructuring provisions	291	– 5	125	0	94	255
of which: non-current	92	– 8	10	0	5	79
of which: current	199	3	115	0	89	176
Sundry provisions	936	– 9	380	14	741	1,274
of which: non-current	302	– 143	26	2	55	186
of which: current	634	134	354	12	686	1,088
Total	1,629	– 20	682	92	949	1,784
of which: non-current	487	– 152	55	10	61	331
of which: current	1,142	132	627	82	888	1,453

Provisions are recognized for obligations towards 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 0.6 and 3.6 percent.

The income tax provisions comprise accrued tax liabilities and amounts set aside for the outcome of external tax audits.

Other provisions include identifiable obligations towards third parties. They are measured at total cost.

Other changes in provisions include changes in the scope of consolidation, movements in exchange rates, and adjustments to reflect changes in maturity as time passes.

Provisions are recognized in respect of restructuring measures, provided that work has begun on the implementation of a detailed, formal plan or such a plan has already been communicated. Additions to the restructuring provisions are related to the continued expansion of our shared services and to the optimization of production sites in the business sector Adhesive Technologies.

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. In the year under review, we added 16 million euros to the provisions for our “Special Incentive 2012,” which is included in current provisions under “Personnel.” The program extends to our Management Circles 0 to IIb.

Provisions for obligations in the production and technology sphere relate primarily to provisions for warranties.

Analysis of sundry provisions by function

in million euros	December 31, 2011	December 31, 2012
Sales	120	213
of which: non-current	4	5
of which: current	116	208
Personnel	585	690
of which: non-current	228	114
of which: current	357	576
Production and technology	40	39
of which: non-current	22	22
of which: current	18	17
Various sundry obligations	191	332
of which: non-current	48	45
of which: current	143	287
Total	936	1,274
of which: non-current	302	186
of which: current	634	1,088

(17) Borrowings

in million euros	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total
Bonds	3,483	187	3,670	2,451	1,173	3,624
Commercial papers[1]	–	29	29	–	–	–
Liabilities to banks[2]	15	194	209	–	146	146
Other borrowings	3	2	5	3	1	4
Total	3,501	412	3,913	2,454	1,320	3,774

[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 in million euros	Type	Nominal value	Carrying amounts excluding accrued interest 2011	Carrying amounts excluding accrued interest 2012	Market values excluding accrued interest[1] 2011	Market values excluding accrued interest[1] 2012	Market values including accrued interest[1] 2011	Market values including accrued interest[1] 2012	Interest rate[2] 2011	Interest rate[2] 2012	Interest fixing
Henkel AG & Co. KGaA	Bond	1,000	1,030	1,015	1,044	1,017	1,068	1,041	4.2500	4.2500	until 2013[3]
Interest rate swap (3-month Euribor +0.405%)[6]	*Receiver swap*	*1,000*	*32*	*16*	*32*	*16*	*55*	*40*	*1.8751*	*0.5951*	*3 months*
Henkel AG & Co. KGaA	Bond	1,000	1,029	1,024	1,072	1,050	1,108	1,086	4.6250	4.6250	until 2014[4]
Interest rate swap (3-month Euribor +2.02%)[6]	*Receiver swap*	*1,000*	*32*	*26*	*32*	*26*	*67*	*61*	*3.4403*	*2.2053*	*3 months*
Henkel AG & Co. KGaA	Hybrid bond	1,300	1,424	1,427	1,296	1,401	1,303	1,408	5.3750	5.3750	until 2015[5]
Interest rate swap (3-month Euribor +1.80%)[6]	*Receiver swap*	*650*	*54*	*60*	*54*	*60*	*55*	*62*	*3.2712*	*1.9902*	*3 months*
Interest rate swap (1-month Euribor +0.955%)[6]	*Receiver swap*	*650*	*81*	*78*	*81*	*78*	*84*	*82*	*2.0750*	*1.0650*	*1 month*
Total bonds		3,300	3,483	3,466	3,412	3,468	3,479	3,535			
Total interest rate swaps		3,300	199	180	199	180	261	245			

[1] Market value of the bonds derived from the stock market price at December 31.
[2] Interest rate on December 31.
[3] Fixed-rate interest of bond coupon: 4.25 percent, converted using interest rate swaps into a floating interest rate; interest rate to be fixed next on March 11, 2013 (previous year: March 12, 2012) (fair value hedge).
[4] Fixed-rate interest of bond coupon: 4.625 percent, converted using interest rate swaps into a floating interest rate; interest rate to be fixed next on March 19, 2013 (previous year: March 19, 2012) (fair value hedge).
[5] Fixed-rate interest of bond coupon: 5.375 percent, converted using interest rate swaps into a floating interest rate; interest rate fixed on January 23, 2013 (previous year: January 25, 2012) (fair value hedge).
[6] Not including the valuation allowance in the amount of 1 million euros to provide for counterparty default risk (previous year: 5 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 matures in June 2013.

The five-year bond issued in 2009 by Henkel AG & Co. KGaA for 1 billion euros with a coupon of 4.625 percent matures in March 2014.

The 1.3 billion euro subordinated hybrid bond issued by Henkel AG & Co. KGaA in November 2005 to finance a large part of the pension obligations in Germany matures in 2104. Under the terms of the bond, the coupon for the first ten years is 5.375 percent. The earliest bond redemption date is November 25, 2015. If it is not redeemed, the bond interest will be based on the 3-month Euribor interest rate plus a premium of 2.85 percentage points. The bond terms also stipulate that if there is a “cash flow event,” Henkel AG & Co. KGaA has the option or the obligation to defer the interest payments. A cash flow event is deemed to have occurred if the adjusted cash flow from operating activities is below a certain percentage of the net liabilities (20 percent for optional interest deferral, 15 percent for mandatory interest deferral); see Section 3 (4) of the bond terms and conditions for the definition. On the basis of the cash flow calculated at December 31, 2012, the percentage was 70.56 percent (previous year: 77.42 percent).

The US dollar liabilities of Henkel of America, Inc., Wilmington, USA, are set off against sureties of Henkel US LLC, Wilmington, USA. Liabilities to banks set off against deposits amounted to 1,400 million euros. See also the explanatory notes on discretionary judgments on page 116.

(18) Other financial liabilities

Analysis

in million euros	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total
Liabilities to non-consolidated affiliated companies and associated companies	–	8	8	–	15	15
Liabilities to customers	–	33	33	–	47	47
Derivative financial instruments	50	25	75	14	38	52
Sundry financial liabilities	4	18	22	2	11	13
Total	**54**	**84**	**138**	**16**	**111**	**127**

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 (German pension protection fund) amounting to 9 million euros (previous year: 9 million euros).

(19) Other liabilities

Analysis

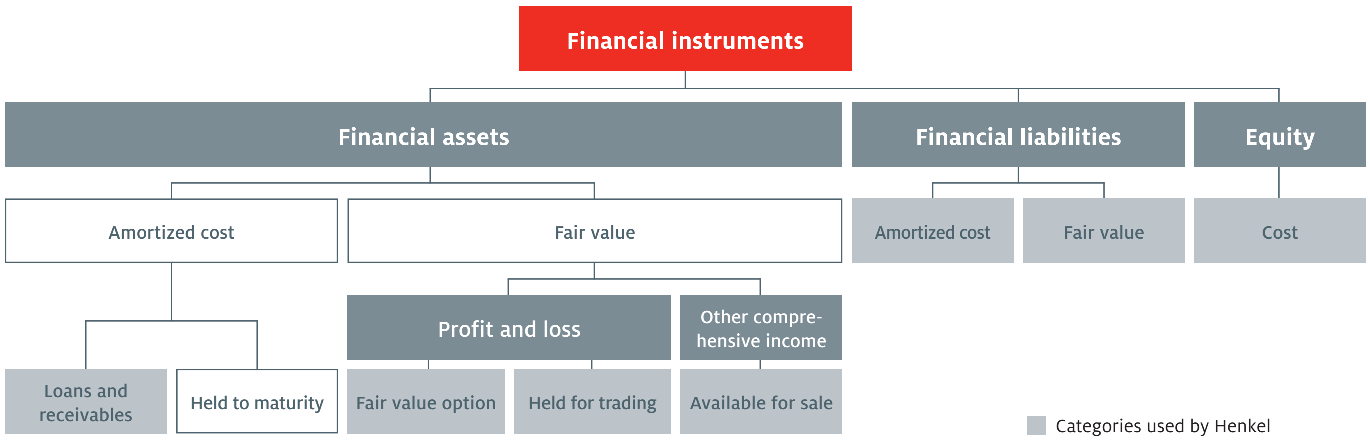
in million euros	December 31, 2011 Non-current	December 31, 2011 Current	December 31, 2011 Total	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total
Other tax liabilities	–	81	81	–	90	90
Liabilities to employees	4	18	22	2	14	16
Liabilities relating to employees' deductions	–	53	53	–	56	56
Liabilities in respect of social security	–	20	20	1	19	20
Sundry other liabilities	19	35	54	15	40	55
Total	**23**	**207**	**230**	**18**	**219**	**237**

The sundry other liabilities primarily comprise various accruals and deferrals amounting to 15 million euros (previous year: 15 million euros) and payments on account in the amount of 5 million euros (previous year: 4 million euros).

(20) Trade accounts payable

Trade accounts payable increased from 2,411 million euros to 2,647 million euros. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. All such payables are due within one year.

(21) Financial instruments report



Financial instruments explained by category
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Within the Henkel Group, financial instruments are reported under trade accounts receivable, trade accounts payable, borrowings, other financial assets and other financial liabilities, and also cash and cash equivalents within the statement of financial position.

Financial instruments are recognized once Henkel becomes a party to the contractual provisions of the financial instrument. The recognition of financial assets takes place at the settlement date, with the 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 essentially measured at fair value. In the fair value option, for the first time in fiscal 2012 we are including 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. 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." All other financial instruments including the financial assets categorized as "Loans and receivables" are recognized at amortized cost using the effective interest method. The measurement 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 affect-

ing 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 the other investments are categorized as "Available for sale." The fair values of the securities and time deposits are based on quoted market prices. As the fair values of the financial investments not recognized at equity cannot be reliably determined, they are measured at amortized cost. The sale or disposal of these financial instruments is not currently intended.

The derivative financial instruments not included in a designated hedging relationship and therefore categorized as "Held for trading" are essentially recognized at their fair value. All fair value changes are recognized through profit or loss. 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 141 to 143.

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.

Carrying amounts and fair values of financial instruments

December 31, 2011 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehensive income	Fair value, through profit or loss	
Assets					
Loans and receivables	**4,238**	4,238	–	–	**4,238**
Trade accounts receivable	**2,001**	2,001	–	–	**2,001**
Other financial assets (restated) [1]	**257**	257	–	–	**257**
Cash and cash equivalents	**1,980**	1,980	–	–	**1,980**
Fair value option	–	–	–	–	–
Other financial assets	–	–	–	–	–
Available for sale	**381**	19	362	–	**381**
Other financial assets	**381**	19	362	–	**381**
Held for trading	**8**	–	–	8	**8**
Derivative financial instruments not included in a designated hedging relationship	**8**	–	–	8	**8**
Derivative financial instruments included in a designated hedging relationship	**256**	–	–	256	**256**
Total	**4,883**	**4,257**	**362**	**264**	**4,883**
Liabilities					
Amortized cost	**6,387**	6,387	–	–	**6,316**
Trade accounts payable	**2,411**	2,411	–	–	**2,411**
Borrowings with no financial statement hedging relationship	**363**	363	–	–	**363**
Borrowings with a financial statement hedging relationship	**3,550**	3,550	–	–	**3,479**
Other financial liabilities	**63**	63	–	–	**63**
Held for trading	**24**	–	–	24	**24**
Derivative financial instruments not included in a designated hedging relationship	**24**	–	–	24	**24**
Derivative financial instruments included in a designated hedging relationship	**51**	–	51	–	**51**
Total	**6,462**	**6,387**	**51**	**24**	**6,391**

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

December 31, 2012 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehensive income	Fair value, through profit or loss	
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
Cash and cash equivalents	1,238	1,238	–	–	1,238
Fair value option	537	–	–	537	537
Other financial assets	537	–	–	537	537
Available for sale	1,726	18	1,708	–	1,726
Other financial assets	1,726	18	1,708	–	1,726
Held for trading	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	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	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	19	–	19	–	19
Total	6,548	6,496	19	33	6,550

The following hierarchy is applied in order to determine and disclose the fair value of financial instruments:

- Level 1: Fair values which are determined on the basis of quoted, unadjusted prices in active markets.
- Level 2: Fair values which are determined on the basis of parameters for which either directly or indirectly derived market prices are available.
- Level 3: Fair values which are determined on the basis of parameters for which the input factors are not derived from observable market data.

The securities categorized within the Henkel Group as "Available for sale" or using the "Fair value option" and measured at fair value fall under fair value hierarchy level 1, while financial instruments "Held for trading" fall under fair value hierarchy level 2.

Net gains and losses from financial instruments by category

The net gains and losses from financial instruments can be allocated to the following categories:

Net results of the measurement categories and reconciliation to financial result

in million euros	2011	2012
Loans and receivables	66	55
Fair value option	–	3
Available for sale	9	11
Held for trading including derivatives in a designated hedging relationship	43	9
Financial liabilities measured at amortized cost	– 220	– 203
Total net results	– 102	– 125
Foreign exchange effects	– 59	– 6
Interest expense of pension provisions less expected return from plan assets and reimbursement rights	5	2
Other financial result (not related to financial instruments)	1	– 12
Financial result	– 155	– 141

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 30 million euros (previous year: 39 million euros) and income from

payments on financial instruments already written off and derecognized amounting to 3 million euros (previous year: 2 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 1 million euros (previous year: 0 million euros) and valuation gains of 2 million euros (previous year: 0 million euros).

The net result from securities and time deposits classified as "Available for sale" amounts to 10 million euros (previous year: 9 million euros) for interest income and 1 million euros (previous year: 0 million euros) for income from other investments. The measurement of these other instruments at fair value led to a gain of 3 million euros (previous year: loss of 2 million euros) which was recognized in the reserve for "Financial instruments available for sale" in other comprehensive income.

The net result from "Held for trading" financial instruments and derivatives in a designated hedging relationship includes, in addition to the outcome of measurement of these derivatives to fair value amounting to –46 million euros (previous year: 11 million euros), income in the amount of 4 million euros (previous year: –4 million euros) arising from the release of the valuation allowance made for counterparty credit risk. In addition, 51 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: 36 million euros).

The net result from "Financial liabilities measured at amortized cost" is essentially derived from the interest expense for borrowings amounting to 215 million euros (previous year: 217 million euros). Also included are valuation gains of 17 million euros from borrowings in a fair value hedge relationship. In the previous year, the net loss for fair value hedges of 1 million euros was reported in the net result for financial instruments held for trading, including derivatives in a designated hedging relationship. Fees for procuring money and loans amounting to 5 million euros were also recognized under this heading (previous year: 3 million euros).

The realization and valuation of financial assets and liabilities in foreign currencies (without derivative financial instruments) resulted in an expense of –6 million euros (previous year: expense of –59 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. The fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of Group strategy, are recognized through profit or loss. These are 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	Nominal value		Positive fair value[2]		Negative fair value[2]	
in million euros	2011	2012	2011	2012	2011	2012
Forward exchange contracts[1]	1,445	1,985	7	14	– 23	– 17
(of which: for hedging loans within the Group)	*(881)*	*(1,628)*	*(4)*	*(12)*	*(– 14)*	*(– 16)*
Interest rate swaps	4,537	4,734	256	244	– 51	– 35
(of which: designated as fair value hedge)	*(3,300)*	*(3,300)*	*(256)*	*(244)*	*(–)*	*(–)*
(of which: designated as cash flow hedge)	*(1,237)*	*(910)*	*(–)*	*(–)*	*(– 51)*	*(– 19)*
(of which: to hedge financial instruments in the fair value option)	–	*(524)*	–	*(–)*	–	*(– 16)*
Other interest rate hedging instruments	386	–	–	–	–	–
(of which: designated for hedge accounting)	*(–)*	*(–)*	*(–)*	*(–)*	*(–)*	*(–)*
Commodity futures[1]	39	1	1	–	– 1	–
(of which: designated for hedge accounting)	*(–)*	*(–)*	*(–)*	*(–)*	*(–)*	*(–)*
Total derivative financial instruments	**6,407**	**6,720**	**264**	**258**	**– 75**	**– 52**

[1] Maturity less than 1 year.
[2] Fair values including accrued interest and a valuation allowance for counterparty credit risk of 1 million euros (previous year: 5 million euros).

For forward exchange contracts, the fair value is determined on the basis of the reference exchange rates of the European Central Bank prevailing at the reporting date, taking into account forward premiums/forward discounts for the remaining term of the respective contract versus the contracted foreign exchange rate. Foreign exchange options are measured using price quotations or recognized models for the determination of option prices. Interest rate hedging instruments are measured on the basis of discounted cash flows expected in the future, taking into account market interest rates applicable for the remaining term of the contracts. These are indicated for the two most important currencies in the following table. It shows the interest rates quoted on the interbank market in each case on December 31.

Interest rates in percent p. a.

At December 31	EUR		USD	
Term	2011	2012	2011	2012
1 month	1.02	**0.07**	0.40	**0.23**
3 months	1.36	**0.18**	0.69	**0.42**
6 months	1.84	**0.25**	0.76	**0.48**
1 year	1.95	**0.48**	1.23	**0.88**
2 years	1.29	**0.38**	0.75	**0.39**
5 years	1.73	**0.77**	1.27	**0.85**
10 years	2.42	**1.60**	2.10	**1.82**

Due to the complexities involved, financial derivatives entered into as hedges of commodity price risks are primarily measured on the basis of simulation models, which are derived from market quotations. Regular plausibility checks are performed in order to safeguard valuation correctness.

In measuring derivative financial instruments, counterparty credit risk is taken into account with a lump-sum adjustment to the fair values concerned, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2012 amounts to 1 million euros (previous year: 5 million euros). The release was recognized 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, commodity derivatives are used to hedge uncertainties in future commodity price developments. See also the explanations relating to other price risks on page 148.

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 180 million euros (previous year: 199 million euros) excluding accrued interest. The changes in fair value of the receiver interest rate swaps arising from market interest rate risks amounted to –19 million euros (previous year: 14 million euros). The corresponding changes in fair value of the hedged bonds amounted to 17 million euros (previous year: –15 million euros). In determining the fair value change in the bonds (see also Note 17 on page 136), 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	2011	2012
Gains (+) / losses (–) from hedged items	– 15	**17**
Gains (+) / losses (–) from hedging instruments	14	**– 19**
Net	– 1	**– 2**

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
2012	– 347	103	10	– 234
2011	– 351	4	–	– 347

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., and secondly it relates to forward exchange contracts for acquisitions in prior years.

Of the addition in the amount of 103 million euros, 94 million euros is related to the release of provisions associated with the acquisition of the National Starch businesses. The remaining increase of 9 million euros after taxes on income relates to the interest rate hedge of the US dollar liabilities of Henkel of America, Inc. The partial repayment of the US dollar liabilities in the reporting year and the amortization of the amounts recognized in equity 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 –18 million euros (previous year: –50 million euros) excluding accrued interest. 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. The cash flows arising from hedging the floating interest rate of the US dollar liabilities of Henkel of America, Inc. are expected in the period from 2013 to 2014 and will be recognized through profit or loss in the periods concerned as interest expense. In the reporting year, the hedging relationship for a portion of the US dollar liabilities was ended. 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.

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.

The addition in the amount of 34 million euros is related to the release of provisions associated with the acquisition of the National Starch businesses. As in the previous year, no hedges of a net investment in a foreign entity were entered into in the past fiscal year. No amounts were transferred in the course of the year from equity to profit or loss.

Hedges of a net investment in a foreign entity
(after tax)

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2012	69	– 34	–	35
2011	69	–	–	69

Risks arising from financial instruments, and risk management

As a globally active corporation, Henkel is exposed in the course of its ordinary business operations to credit risks, liquidity risks and market risks (currency translation, interest rate and commodity price risks). The purpose of financial risk management is to restrict the exposure arising from operating activities through the use of selective derivative and non-derivative hedges. Henkel uses derivative financial instruments exclusively for the purposes of risk management. Without these instruments, Henkel would be exposed to higher financial risks. Changes in exchange rates, interest rates or commodity prices can lead to significant fluctuations in the fair values of the derivatives used. These variations in fair value should not be regarded in isolation from the hedged items, as derivatives and the underlying constitute a unit in terms of 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 Corporate Treasury. They describe the fields of responsibility and establish the distribution of these responsibilities between the Corporate Treasury department and Henkel's subsidiaries. The Management Board is regularly and comprehensively informed of all major risks and of all relevant hedging transactions and arrangements. The objectives and fundamental principles adopted in capital management are described in the Management Report on pages 66 and 67.

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:

Maximum risk position

in million euros	2011 restated [1]	2012
Trade accounts receivable	2,001	2,021
Derivative financial instruments not included in a designated hedging relationship	8	14
Derivative financial instruments included in a designated hedging relationship	256	244
Other financial assets	638	2,437
Cash and cash equivalents	1,980	1,238
Total carrying values	**4,883**	**5,954**

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

In its operating business, Henkel is confronted by progressive concentration and consolidation on the customer side, reflected in the receivables from individual customers.

A credit risk management system operating on the basis of a globally applied credit policy ensures that credit risks are constantly monitored and bad debts minimized. This policy, which applies to both new and existing customers, governs the allocation of credit limits and compliance with those limits, individual analyses of customers’ creditworthiness based on both internal and external financial information, risk classification, and continuous monitoring of the risk of bad debts at the local level. Our key customer relationships are also monitored at the regional and global level. In addition, safeguarding measures are implemented on a selective basis for particular countries and customers inside and outside the euro zone.

Collateral received and other safeguards include country-specific and customer-specific protection afforded by credit insurance, confirmed and unconfirmed letters of credit in export business, as well as warranties, guarantees and cover notes.

Valuation allowances are made in respect of financial assets so that those assets are recognized at their fair value at the reporting date. In the case of impairment losses that have already occurred but have not yet been identified, global valuation allowances are made on the basis of empirical evidence, taking into account the overdue structure. Financial assets that are more than 180 days overdue are, following the impairment test, generally written off.

In all, we recognized valuation allowances on loans and receivables in 2012 in the amount of 30 million euros (previous year: 39 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	>91 days	Total
At December 31, 2012	151	46	14	4	215
At December 31, 2011	130	35	14	2	181

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, netting arrangements to offset bilateral receivables and obligations are agreed with counterparties and investment limits are set. These limits are based on the credit ratings of the counterparties and are regularly monitored and adjusted. Besides relevant ratings, certain other indicators, such as the pricing of credit default swaps (CDS) by banks, are applied in determining the limits. We additionally enter into collateral agreements with selected banks, on the basis of which reciprocal sureties are established to secure the fair values of contracted derivatives and other claims and obligations. Effective December 31, 2012, the balance of collateral received from banks and paid to banks amounted to 37 million euros (previous year: 70 million euros). A valuation allowance of 1 million euros exists to cover the remaining credit risk from the positive fair values of derivatives (previous year: 5 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 to 2015 and 2017. 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

		Remaining term			
in million euros	December 31, 2011 Carrying amounts	Up to 1 year	Between 1 and 5 years	More than 5 years	December 31, 2011 Total cash flow
Bonds[1]	**3,670**	284	3,644	–	**3,928**
Commercial papers[2]	**29**	29	–	–	**29**
Liabilities to banks	**209**	201	12	2	**215**
Trade accounts payable	**2,411**	2,411	–	–	**2,411**
Sundry financial instruments[3]	**68**	61	4	3	**68**
Original financial instruments	6,387	2,986	3,660	5	6,651
Derivative financial instruments	75	45	30	–	75
Total	6,462	3,031	3,690	5	6,726

[1] The cash flows from the hybrid bond issued in 2005 are disclosed for the period until the first possible redemption date by Henkel on November 25, 2015.
[2] From the euro and US dollar commercial paper program (total volume 2 billion US dollars and 1 billion euros).
[3] Sundry financial instruments include amounts due from customers and finance bills.

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 from 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 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. To avoid complexity, we do not apply hedge accounting for the derivatives employed. The derivatives are designated as "Held for trading" and are recognized at fair value through profit or loss. The currency risk that exists within the Group in the form of transaction risk therefore has a direct effect on income rather than being recognized in equity.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2012 amounted to 21 million euros after hedging (previous year: 16 million euros). The value-at-risk shows the maximum expected risk of loss in a month as a result of currency fluctuations. The risk arises from imports and exports by Henkel AG & Co. KGaA and its foreign subsidiaries. Due to the international nature of its activities, the Henkel Group has a portfolio with more than 50 different currencies. In addition to the US dollar, the main influence on currency risk is exerted by the Russian ruble, the Mexican peso, the Ukrainian hryvnia and the Argentine peso. The value-at-risk analysis assumes a time horizon of one month and a unilateral confidence interval of 95 percent. The calculation is based on the variance-covariance approach. 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 term 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. 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

in million euros	Carrying amounts 2011	2012
Fixed-interest financial instruments		
Euro	–	–
US dollar	1,237	910
Others	–	–
	1,237	910
Floating-interest financial instruments		
Euro	170	– 260
US dollar	212	42
Chinese yuan	– 107	– 228
Russian ruble	– 109	– 129
Others	– 88	– 250
	78	– 825

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. The analysis of fair value risk assumes a parallel shift in the interest curve of 100 basis points, with the hypothetical loss or gain of the relevant interest rate derivatives at the reporting date being calculated accordingly. The fixed-interest financial instruments exposed to fair value risk are essentially the fixed-interest rate bank liabilities denominated in US dollars.

The risk of interest rate fluctuations with respect to the earnings of the Henkel Group is shown in the basis point value (BPV) analysis in the table below.

Interest rate risk

in million euros	2011	2012
Based on an interest rate change of 100 basis points	27	– 2
of which:		
Cash flow through profit and loss	5	– 8
Fair value recognized in equity through comprehensive income	22	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 report on pages 92 and 98.

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.