Notes to the consolidated statement of income

(22) Sale proceeds and principles of income recognition

Sales increased from 15,605 million euros to 16,510 million euros. Revenues and their development by business sector and region are summarized in the Group segment report and in the key financials by region on pages 109 and 110. A detailed explanation of the development of major income and expense items can be found in the management report on pages 58 to 62.

Sales comprise sales of goods and services less sales deductions such as customer-related rebates, credits and other benefits paid or granted. Sales are recognized once the goods have been delivered or the service has been performed. In the case of goods, this coincides with the physical delivery when risks and rewards are transferred. Henkel uses different terms of delivery that contractually determine the transfer of risks and rewards. It must also be probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred in respect of the transaction must be reliably measurable.

Services are generally provided in conjunction with the sale of goods, and recorded once the service has been performed. No sale is recognized if there are significant risks relating to the receipt of the consideration or it is likely that the goods will be returned.

Interest income is recognized on a time-proportion basis that takes into account the effective yield on the asset and the interest rate in force. Dividend income from investments is recognized when the shareholder's right to receive payment is legally established.

(23) Cost of sales

The cost of sales rose from 8,538 million euros to 8,778 million euros.

Cost of sales comprises the cost of products and services sold and the purchase cost of merchandise sold. It consists of the directly attributable cost of materials and primary production cost, as well as indirect production overheads including the production-related amortization/depreciation and impairment of intangible assets and property, plant and equipment.

(24) Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,302 million euros (previous year: 4,132 million euros).

In addition to marketing organization and distribution expenses, this item comprises, in particular, advertising, sales promotion and market research expenses. Also included here are the expenses of technical advisory services for customers, valuation allowances on trade accounts receivable as well as valuation allowances and impairment on trademarks and other rights.

(25) Research and development expenses

Research and development expenses remained at the previous year's level of 408 million euros.

Research expenditures may not be recognized as an asset. Development expenditures are recognized as an asset if all the criteria for recognition are met, the research phase can be clearly distinguished from the development phase and the expenditures can be attributed to distinct project phases. Currently, the criteria set out in IAS 38 "Intangible Assets" for recognizing development expenditures are not all being met, due to a high level of interdependence within the development projects and the difficulty of assessing which products will eventually be marketable.

(26) Administrative expenses

Administrative expenses amounted to 785 million euros (previous year: 785 million euros).

Administrative expenses include personnel and non-personnel costs of Group management and costs relating to the Human Resources, Purchasing, Accounting and IT departments.

(27) Other operating income

Other operating income

in million euros	2011	2012
Release of provisions[1]	37	29
Gains on disposal of non-current assets	15	19
Insurance claim payouts	7	6
Write-ups of non-current assets	1	1
Payments on derecognized receivables	2	3
Profits on sale of businesses	62	2
Sundry operating income	85	49
Total	**209**	**109**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 15 million euros (previous year: 3 million euros).

Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as grants and subsidies, bonus credits and similar income.

(28) Other operating charges

Other operating charges

in million euros	2011 restated[1]	2012
Fine from antitrust proceedings in France	92	–
Losses on disposal of non-current assets	9	8
Contractual termination severance payments	1	13
Impairment on assets held for sale	2	–
Impairment on other assets	5	–
Sundry operating expenses	75	126
Total	184	147

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

Sundry operating expenses relate to a number of individual items arising from ordinary operating activities, such as fees, sundry taxes, provisions for litigation, transfer risks from countries with weak currencies, third party claims and similar expenses. The contractual termination severance payments were incurred as a result of terminating a disadvantageous distribution agreement.

(29) Financial result

Financial result

in million euros	2011	2012
Investment result	–	1
Interest result	– 155	– 142
Total	– 155	– 141

Investment result

in million euros	2011	2012
Income from other investments	–	–
Other	–	1
Total	–	1

Interest result

in million euros	2011	2012
Interest and similar income from third parties[1]	34	32
Expected return on plan assets less interest expense for pension provisions[2]	1	–
Expected return on reimbursement rights (IAS 19)	4	4
Other financial income	6	14
Total interest income	45	50
Interest to third parties[1]	– 145	– 129
Other financial charges	– 55	– 61
Interest expense for pension provisions less expected return on plan assets[2]	–	– 2
Total interest expense	– 200	– 192
Total	– 155	– 142

[1] Including interest income and interest expense, both in the amount of 35 million euros (previous year: 41 million euros), in respect of mutually offset deposits and liabilities to banks, reported on a net basis.
[2] Interest expense: 181 million euros; expected interest income: 179 million euros (previous year: Interest expense: 179 million euros; expected interest income: 180 million euros).

Please see page 140 of the section "Financial instruments report" for information on the net results of the valuation categories under IFRS 7 and the reconciliation to financial result.

(30) Taxes on income

Income tax expense/income breaks down as follows:

Income before taxes on income and analysis of taxes

in million euros	2011 restated[1]	2012
Income before tax	1,610	2,058
Current taxes	384	532
Deferred taxes	35	– 30
Taxes on income	419	502
Tax rate in percent	*26.0%*	*24.4%*

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

Main components of tax expense and income

in million euros	2011	2012
Current tax expense/income in the reporting year	455	534
Current tax adjustments for prior years	– 71	– 2
Deferred tax expense/income from temporary differences	14	– 50
Deferred tax expense from unused tax losses	22	24
Deferred tax expense from tax credits	2	1
Deferred tax expense/income from changes in tax rates	– 5	– 3
Increase/decrease in valuation allowances on deferred tax assets	2	– 2

Deferred tax expense by items on the statement of financial position

in million euros	2011	2012
Intangible assets	8	–52
Property, plant and equipment	3	3
Financial assets	–1	5
Inventories	2	3
Other receivables and other assets	–34	–8
Special tax item	–3	–3
Provisions	–10	–26
Liabilities	44	25
Tax credits	2	1
Unused tax losses	22	24
Valuation allowances	2	–2
Financial statement figures	35	–30

The individual company reports – prepared on the basis of the tax rates applicable in each country and taking into account consolidation procedures – have been summarized in the statement below, showing how the expected tax charge, based on the tax rate applicable to Henkel AG & Co. KGaA of 31 percent, is reconciled to the effective tax charge disclosed.

Tax reconciliation statement

in million euros	2011 restated[1]	2012
Income before taxes on income	1,610	2,058
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31%	31%
Expected tax charge	499	638
Tax reductions due to differing tax rates abroad	–64	–77
Tax increases/reductions for prior years	–61	8
Tax increases/reductions due to changes in tax rates	–5	–3
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	2	–2
Tax reductions due to tax-free income and other items	–49	–159
Tax increases/reductions arising from additions and shortfalls for local taxes	18	18
Tax increases due to withholding taxes	20	27
Tax increases due to non-deductible expenses	59	52
Tax charge disclosed	419	502
Tax rate	26.0%	24.4%

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

Deferred taxes are calculated on the basis of tax rates that apply in the individual countries at the year-end date or which have already been legally decided. In Germany there is a uniform corporate income tax rate of 15 percent plus a solidarity tax of 5.5 percent. After taking into account trade tax, this yields an overall tax rate of 31 percent.

Deferred tax assets and liabilities are netted where they involve the same tax authority and the same tax creditor.

The deferred tax assets and liabilities stated on the reporting date relate to the following items of the consolidated statement of financial position, unused tax losses and tax credits:

Allocation of deferred taxes

	Deferred tax assets		Deferred tax liabilities	
in million euros	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012
Intangible assets	99	162	674	669
Property, plant and equipment	19	18	87	90
Financial assets	2	6	7	14
Inventories	39	36	5	6
Other receivables and other assets	63	59	108	97
Special tax item	–	–	46	43
Provisions	522	679	8	10
Liabilities	144	109	12	17
Tax credits	9	8	–	–
Unused tax losses	52	27	–	–
Amounts netted	–466	–497	–466	–497
Valuation allowances	–18	–15	–	–
Financial statement figures	465	592	481	449

The deferred tax assets of 679 million euros (previous year: 522 million euros) relating to provisions in the financial statement result primarily from recognition and measurement differences with respect to pensions. The deferred tax liabilities of 669 million euros (previous year: 674 million euros) relating to intangible assets are mainly attributable to business combinations such as the acquisition of the National Starch businesses in 2008.

An excess of deferred tax assets is only recognized insofar as it is likely that the company concerned will achieve sufficiently positive taxable profits in the future against which the deductible temporary differences can be offset and tax loss carryforwards can be used. Deferred taxes have not been recognized with respect to unused tax losses of 52 million euros (previous year: 58 million euros), as it is not sufficiently probable that taxable gains or benefits will be available against which they may be utilized. Of these tax losses carried forward, 2 million euros lapse within one year, 1 million euros within two years, 24 million euros after three years or more with 25 million euros non-expiring.

Deferred tax liabilities of 5 million euros relating to the retained earnings of foreign subsidiaries have been recognized due to the fact that these earnings are distributed in 2013.

The table below summarizes the expiry dates of unused tax losses and tax credits. This table includes unused tax losses arising from the disposal of assets of 11 million euros (previous year: 12 million euros) which may be carried forward without restriction.

In many countries, different tax rates apply to losses on the disposal of assets and to operating profits, and in some cases losses on the disposal of assets may only be offset against gains on the disposal of assets.

Of unused tax losses lapsing beyond three years, 104 million euros (previous year: 202 million euros) relate to loss carry-forwards of US subsidiaries in respect of state taxes (tax rate about 5 percent).

Equity-increasing deferred taxes of 124 million euros were recognized (previous year: equity-increasing amount of 91 million euros). Within this figure, 135 million euros is a net actuarial gain on pension obligations, this being offset by –11 million euros in gains and losses from cash flow hedges.

Expiry dates of unused tax losses and tax credits

	Unused tax losses		Tax credits	
in million euros	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012
Lapse within				
1 year	9	4	–	–
2 years	5	3	–	–
3 years	14	–	–	–
more than 3 years	254	140	9	8
May be carried forward without restriction	104	61	–	–
Total	**386**	**208**	**9**	**8**

(31) Non-controlling interests

The amount shown here represents the proportion of net income and losses attributable to other shareholders of affiliated companies.

Their share of net income was 47 million euros (previous year: 33 million euros) and that of losses 1 million euros (previous year: 3 million euros).