Annual Report 2010

Henkel Excellence is our Passion

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Our strategic priorities

We continue to focus our efforts on the pursuit of our strategic priorities, formulated in 2008 in order to secure Henkel's success over the long term. And in fiscal 2010 we again made great progress toward their achievement.

Central to our approach is a strong, unique corporate ethos: a winning culture characterized by a clear commitment to excellent performance and being the best in a highly competitive environment. And helping us to constantly raise our game we have our long-term vision and five shared values to guide our decisions and our actions.

Our top brands

Our strong brands are the basis of our economic success. Going forward, we will be keeping our focus on our major, widely recognized brands: With Schwarzkopf, Loctite and Persil – our three biggest brands – we generate 23 percent of total sales. And our ten biggest brands contribute 41 percent to total sales.

The Laundry & Home Care business sector realizes 32 percent of its sales with its three strongest brands Persil, Purex (in North America) and Dixan. Cosmetics/Toiletries achieves 71 percent of its sales with its three biggest brands Schwarzkopf, Dial (in North America) and Fa. And the Adhesive Technologies business sector makes 26 percent of its sales with its three biggest brands Loctite, Teroson and Technomelt.

How Henkel developed in 2010

Sales by business sector

- 29 % Laundry & Home Care
- 22 % Cosmetics/Toiletries
- 48 % Adhesive Technologies
- 1 % Corporate

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

Key financials

in million euros	2009	2010	+/–
Sales	13,573	15,092	11.2 %
Operating profit (EBIT)	1,080	1,723	59.5 %
Adjusted[1] operating profit (EBIT)	1,364	1,862	36.5 %
Return on sales (EBIT) in %	8.0	11.4	3.4 pp
Adjusted[1] return on sales (EBIT) in %	10.0	12.3	2.3 pp
Net income	628	1,143	82.0 %
– Attributable to non-controlling interests	26	25	–3.8 %
– Attributable to shareholders of Henkel AG & Co. KGaA	602	1,118	87.5 %
Earnings per preferred share in euros	1.40	2.59	85.0 %
Adjusted[1] earnings per preferred share in euros	1.91	2.82	47.6 %
Return on capital employed (ROCE) in %	9.8	14.9	5.1 pp
Capital expenditures on property, plant and equipment	344	240	–30.2 %
Research and development expenses	396	391	–1.3 %
Number of employees (annual average)	51,361	48,141	– 6.3 %
Dividend per ordinary share in euros	0.51	0.70[2]	37.3 %
Dividend per preferred share in euros	0.53	0.72[2]	35.8 %

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

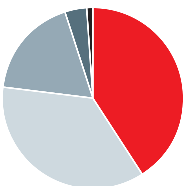
pp = percentage points

Henkel at a glance

Global supplier of brands and technologies
- 134 years of brand success
- Around 48,000 employees

Competence in three business sectors:
- Laundry & Home Care
- Cosmetics / Toiletries
- Adhesive Technologies

Sales by region



- 41 % Growth regions[1]
- 36 % Western Europe
- 18 % North America
- 4 % Japan/Australia/New Zealand
- 1 % Corporate

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

Laundry & Home Care

Leading market positions worldwide.

Achieving profitable growth through innovation, strong brands and good, solid customer relationships.

Expanding our strong market position in Europe and further extending our presence in North America and the growth regions.

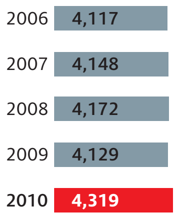
Key financials

in million euros	2009	2010	+/–
Sales	4,129	4,319	4.6 %
Operating profit (EBIT)	501	542	8.2 %
Adjusted[1] operating profit (EBIT)	530	562	6.2 %
Return on sales (EBIT)	12.1 %	12.6 %	0.5 pp
Adjusted[1] return on sales (EBIT)	12.8 %	13.0 %	0.2 pp

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

+1.5 %
organic sales growth

Sales
in million euros



Cosmetics / Toiletries

Leading market positions worldwide.

Achieving profitable growth with appealing innovations under strong brands, aligned to exacting customer demands.

Expanding our strong market position in Europe and extending our presence in North America and – selectively – in the growth regions.

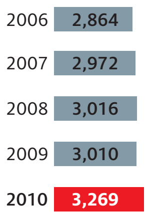
Key financials

in million euros	2009	2010	+/–
Sales	3,010	3,269	8.6 %
Operating profit (EBIT)	387	411	6.1 %
Adjusted[1] operating profit (EBIT)	387	436	12.4 %
Return on sales (EBIT)	12.9 %	12.6 %	–0.3 pp
Adjusted[1] return on sales (EBIT)	12.9 %	13.3 %	0.4 pp

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

+ 4.8 %
organic sales growth

Sales
in million euros



Adhesive Technologies

Leading our markets worldwide.

Achieving profitable growth through innovations under strong brands, efficient processes and a firm focus on our customers.

Developing new applications and growth potential in all regions of the world.

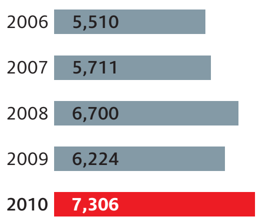
Key financials

in million euros	2009	2010	+/–
Sales	6,224	7,306	17.4 %
Operating profit (EBIT)	290	878	>100 %
Adjusted[1] operating profit (EBIT)	506	938	85.5 %
Return on sales (EBIT)	4.7 %	12.0 %	7.3 pp
Adjusted[1] return on sales (EBIT)	8.1 %	12.8 %	4.7 pp

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

+ 11.8 %
organic sales growth

Sales
in million euros



Our Vision

A global leader in brands and technologies.

Our Values

We put our **customers** at the center of what we do.

We value, challenge and reward our **people**.

We drive excellent sustainable **financial** performance.

We are committed to leadership in **sustainability**.

We build our future on our **family** business foundation.

Further information

You will notice a number of cross-references within this Annual Report. We also indicate the availability of supplementary information relating to specific subject areas in our Sustainability Report and on the internet.

AR Annual Report

SR Sustainability Report

Internet

Henkel Excellence is our Passion

Kasper Rorsted
Chairman of the Management Board.

12.3 %
adjusted[1] return on sales.

+ 7 %
organic sales growth.

+ 47.6 %
adjusted[1] earnings per preferred share.

Dear Friends of the Company,

2010 was an excellent year for Henkel. For the first time in our corporate history, we concluded a financial year with adjusted[1] return on sales above 12 percent. Organic sales increased by 7 percent while adjusted[1] earnings per preferred share rose by 47.6 percent. With these strong results, we are well on our way to achieving our financial targets for 2012.

We have further improved the market positions of all our business sectors relative to our competitors, have strengthened our top brands and have deepened our business relationships with our customers. We have been able to further expand our positions in the emerging markets, particularly in Asia and the Middle East. We have also initiated a comprehensive change process throughout the company, aimed at strengthening the "Winning Culture" at Henkel aligned to a clear, long-term vision: A global leader in brands and technologies.

The outstanding results achieved in 2010 prove that we have made the appropriate decisions in the past. Having adjusted to the decline in global economic growth at an early stage, we have emerged from this crisis stronger than ever. With more efficient structures and improved processes, we have been able to benefit from the recovery of the world economy, gaining strength and momentum with advancing globalization.

Growth in all sectors and regions

While growth in the US economy was slow, the emerging economies once again exhibited the highest rate of expansion. Following a substantial decline in the recession year of 2009, global industrial production again grew strongly in 2010. The recovery was particularly pronounced in Asia, especially in China, South Korea and Taiwan. Germany took a leading role among the industrialized nations, registering a double-digit growth rate in industrial output and taking the lead as Europe's growth engine.

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

An analysis of the individual sectors shows that manufacturing – after substantial declines in the previous year – became a growth driver, with the automotive, metals and electronics industries all returning to growth. By contrast, growth in private consumption – having suffered only a comparatively minor decline in 2009 – was moderate.

In an improved yet, in some markets, still difficult environment, all our business sectors and regions were able to make major contributions to our business success. This was due not just to the general economic recovery but also, and particularly, to our continued strong focus on our strategic priorities:

- Achieve our full business potential
- Focus more on our customers
- Strengthen our global team

Everyone at Henkel has made important contributions to our success in 2010. I would like, on behalf of the entire Management Board, to express our sincere thanks for their commitment and hard work!

Ongoing adaptation of our structures

The volatile business environment in recent years has shown how important it is to respond quickly, flexibly and decisively to change. Even though the economic situation has stabilized in most markets, the necessity remains to continuously adapt and optimize existing structures so we can stay ahead of our international competition. In 2010, we were able to make further progress in a number of areas.

For example, we successfully concluded the integration process of the National Starch businesses, the largest acquisition in our corporate history. Through further improvements in purchasing, human resources and our supply chain, and through the expansion of our shared service centers in Bratislava (Slovakia) and Manila (Philippines), we have succeeded in simplifying our processes and further increasing efficiency. The ongoing optimization of our production sites around the world has also had a positive effect on our cost efficiency.

A major factor for success is and will remain expansion in the emerging markets: once again, we were able to generate double-digit growth in 2010. We currently realize 41 percent of our total sales within these emerging economies, and 53 percent of our employees are now working in those markets.

Our strong brands are equally important for our business success. In 2010, we further strengthened our top brands and continued to optimize our brand portfolio. In the Laundry & Home Care business sector, we generate 81 percent[1)] of consolidated sales with our ten strongest brands, led by Persil. In Cosmetics/Toiletries, the contribution of the ten strongest brands is even higher at 89 percent. Of these, Schwarzkopf has developed into a mega-brand, accounting for annual sales of some 1.8 billion euros. In the Adhesive Technologies business sector, our top ten brands generate 52 percent of sales, with Loctite leading the way.

Our new and innovative products make a particularly important contribution to growth. In the branded consumer goods segments, we generate around 40 percent of our sales with products that have been in the market for less than three years. In the industrial business, where the development times for our customized technologies are significantly longer, the share of products that have been in the market for less than five years is around 24 percent.

Strengthening our corporate culture

Last year we initiated a process aimed at further developing our corporate culture. The internationality and diversity of Henkel require a strong, common culture – with a clear vision and shared values that provide orientation, guidance and identification for all our employees around the world. Our vision of being “a global leader in brands and technologies” defines a clear ambition for every Henkel employee. And in striving to achieve this goal, everyone at Henkel is guided in their daily activities by five values: customers, people, financial performance, sustainability and family.

Our employees have to understand these values in order to act upon them and make them the foundation of our future success. During the second half of 2010, every employee had the opportunity to actively familiarize themselves with our vision and our new values. Participating in around 5,000 workshops, they discussed how our vision and values can be effectively implemented within their working environment. In this report we explain how we live up to our values on a day-to-day basis (see AR pages 12 to 21).

Sales from top ten brands
in %

41 %
of sales generated in the emerging markets.

1) Top brand clusters.

We have also aligned our global system for employee assessment directly to our five values. By the end of 2010, the performance and development potential of around 9,000 managerial staff had been evaluated on the basis of these internationally standardized criteria. With this approach, we ensure that the decisions and the performance of our managers are fully aligned to our values.

Together, our vision and values define our credo as a company: “One Henkel.” In order to communicate and strengthen the Henkel brand both internally and externally, we are introducing a new claim in combination with a revised corporate identity. Our claim captures what we stand for:

Henkel Excellence is our Passion

What do we expect for 2011? In order to achieve our full business potential, we intend to further optimize our portfolio by divesting marginal businesses and non-strategic local brands. In addition, continued focus on costs, adaptation of our structures in mature markets and further measures aimed at efficiency enhancement throughout the company will contribute to achieving our targets. Major elements in this process include the further expansion of our shared service center organization and increased utilization of standardized processes in all our business sectors and functions.

We want to further enhance our strong customer focus with targeted projects in all our business sectors. It is becoming increasingly important for many of our customers and consumers to understand how we integrate sustainability in our business activities. Henkel has already assumed a leading position in sustainability performance, as confirmed numerous times by external ratings. Based on this strong position, we will be further developing our long-term sustainability strategy in 2011.

We are introducing a new compensation system offering higher incentives for outperformance, and we will also increase our focus on talent development in 2011. We particularly want to increase the number of women in our management. By the end of 2010, the share of female managers had already climbed to around 29 percent.

Outlook for 2011

We expect further growth in the world economy in 2011. Following the substantial expansion in many of our customer industries, especially at the beginning of 2010, growth in the industrial sector is likely to normalize, with private consumption showing moderate growth.

We are confident of generating organic sales growth (i.e. sales adjusted for foreign exchange and acquisitions/divestments) in the range of 3 to 5 percent in 2011. We anticipate achieving an increase to around 13 percent in adjusted[1] return on sales (EBIT) and an increase in adjusted[1] earnings per preferred share of around 10 percent.

Our Supervisory Board and Shareholders’ Committee also made an important contribution to Henkel’s business success in 2010. On behalf of the Management Board, I would like to take this opportunity to thank them for their strong support and advice throughout the year.

And on behalf of the entire company, I would also like to express our gratitude to our shareholders for their confidence and support. We are also grateful to our customers for their continuing trust in our company, our brands and our technologies.

Henkel is well positioned for the future. We have a solid financial base, hold strong positions in our international markets, and have highly motivated employees, successful brands and a strong presence in the growth regions. We intend to continue our transformation process in 2011 and to create a strong foundation for the future success of our company.

Düsseldorf, January 28, 2011

Kasper Rorsted
Chairman of the Management Board

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

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

Dear Shareholders and Friends of the Company,

After a difficult 2009, fiscal 2010 was a very successful year for us. With the world economy recovering from the financial crisis, all our business sectors made outstanding contributions to Henkel's sales and profits – not only our two branded consumer goods businesses Laundry & Home Care and Cosmetics/Toiletries, but also our Adhesive Technologies business sector, which posted significant growth with improved profitability.

In recognition of these excellent results, I would like on behalf of the Supervisory Board to express our deep gratitude to all Henkel's employees for their commitment and diligence. My thanks also go to the members of the Management Board and our Works Councils for their constructive support and close cooperation.

We further thank you, our shareholders, for the loyalty and trust that you have shown in our company, its management, its employees and its products in the year under review.

Ongoing dialogue with the Management Board

The Supervisory Board again carefully discharged its duties in fiscal 2010, in accordance with the legal statutes, Articles of Association and rules of procedure governing its actions.

We carefully and regularly monitored the work of the Management Board, advising and supporting it in its stewardship of the strategic further development of the corporation and in decisions relating to matters of major importance.

Throughout the year, the Management Board and the Supervisory Board remained in close communication, exchanging information with mutual trust and confidence. The Management Board complied with its reporting duties punctually and in full, informing us regularly and in detail through both written and verbal communications of major issues affecting the corporation and our Group companies. In particular, the Management Board provided extensive explanations of the business situation and development of the corporation, business policy, the profitability of our operations, and our short-term and long-term corporate, financial and personnel planning, as well as capital expenditures and organizational measures.

In the course of preparing the quarterly reports, details were provided of the sales and profits of Henkel as a whole, with further analysis by business sector and region. Outside Supervisory Board meetings, I as Chairwoman remained in regular contact with the Chairman of the Management Board; this ensured that the Supervisory Board constantly remained in touch with current business developments and events.

Major issues discussed at Supervisory Board meetings

The Supervisory Board met a total of four times in fiscal 2010. At these meetings, we examined in detail the reports of the Management Board and conferred with its members on the development of the corporation and on specific strategic issues.

In all our meetings, we discussed the general economic climate and how it was influencing business performance at Henkel.

The main item of the agenda for our meeting held on February 23, 2010 was the annual and consolidated financial statements for 2009, including the risk report and our corporate governance report. At this meeting, we also approved the Annual Report and finalized our proposals for resolution to be put before the Annual General Meeting. We likewise dealt with organizational issues relating to the Adhesive Technologies business sector and the customer alignment of its five strategic business units.

The meeting held on April 19, 2010 dealt with the recent business development of the Henkel Group and the further elaboration of the compensation concept devised for our managerial staff.

One of the main issues discussed at our meeting of October 5, 2010 related to purchasing. We discussed in detail the global management and control of our worldwide sourcing activities, and particularly action required to secure supply continuity and optimize the value chain. The movement in raw material prices was likewise considered in some detail. We further deliberated on R&D strategy, organization and cross-divisional cooperation and the use of external and globally available R&D resources.

Balance-sheet and financial planning, including items on the income statement and the projects and budgets of our business sectors were the source of extensive discussion during our meeting of December 14, 2010. We also heard a presentation from an external management consultant dealing in detail with the legal principles underlying our Supervisory Board activities, focusing especially on more recent developments in this domain.

Attendance at the Supervisory Board meetings during the year under review averaged 92 percent. No member of the Supervisory Board took part in fewer than half the meetings. There were no incidents of conflicts of interest involving Management Board or Supervisory Board members. Where such exist, they are notifiable to the Supervisory Board, which is then required to report to the Annual General Meeting on their treatment.

Committee activities

In order to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we have assigned certain activities to two separate committees: an Audit Committee comprised of three shareholder-representative members and three employee-representative members, and a Nominations Committee made up of three shareholder-representative members. The memberships of the committees are shown in the table on AR pages 138 and 139.

The Audit Committee, which has special responsibility for preparing the proceedings and proposals of the Supervisory Board and for approving the annual and consolidated financial statements, met four times during the year under review. The Chair of the Committee informed the plenary Supervisory Board of the content and results of each of the Committee meetings punctually and in full.

The focus in all our meetings was on the annual and consolidated financial statements and also the interim financial reports, which were extensively discussed with the Management Board. The meetings at which the half-year financial report and also the report on the third quarter were discussed and approved were also attended by the auditor. The latter reported on the results of the respective reviews and on all the main issues and occurrences relevant to the work of the Audit Committee. No objections were raised.

We also dealt in detail with the development and implementation of the accounting process and with the efficacy and further development of the internal Group-wide control and risk management system. The Committee further received the status reports of the Chief Compliance Officer and the Head of Internal Audit, and approved the audit plan put forward by Internal Audit. These activities also involved examining the functional efficiency and efficacy of the Internal Control System and our compliance organization.

The Audit Committee mandated the external auditor, pursuant to the latter's appointment by the 2010 Annual General Meeting, to audit the annual consolidated financial statements for fiscal 2010, at the same time defining the main areas on which the audit was to concentrate. The audit fee was also established. The Audit Committee likewise mandated the external auditor to review the half-year financial report and the report on the third quarter of 2010, and obtained necessary validation of auditor independence.

At the meeting of February 21, 2011, the Audit Committee discussed together with the external auditor the annual and consolidated financial statements for fiscal 2010, the associated proposal for the appropriation of profits, and the risk report, and submitted to the Supervisory Board corresponding proposals for resolution by the Annual General Meeting. The Committee also made recommendations to the Supervisory Board regarding its proposal for the appointment by the Annual General Meeting of the external auditor for the subsequent financial year. A declaration from the auditor relating to its independence was again duly received; the auditor likewise provided details of the non-audit services rendered in fiscal 2010 and those envisaged for fiscal 2011. There was no evidence of any bias or partiality on the part of the auditor. Other members of the Supervisory Board also took part as guests in this specifically audit-related meeting of the Audit Committee.

Each meeting of the Audit Committee was attended by all its members in the year under review.

The Nominations Committee made appropriate recommendations in preparation for the resolutions to be formulated by the Supervisory Board and placed before the 2011 Annual General Meeting with respect to the upcoming supplementary elections to the Supervisory Board.

Corporate governance and declaration of compliance

Again in 2010, we consulted on issues relating to corporate governance and amendments to the German Corporate Governance Code.

At the meeting of December 14, 2010, we discussed the objectives and composition of our Supervisory Board. Taking into account the company's specific situation, we established criteria for the election of new Supervisory Board members, on the basis of which the Nominations Committee would be required to recommend candidates to the plenary Supervisory Board in preparation for election by the Annual General Meeting. For further details on this and the corporate governance of the company, please refer to the report on AR pages 26 to 31, with which we fully acquiesce.

At the meeting of February 22, 2011, we discussed and approved the joint Declaration of Compliance of the Management Board, the Shareholders' Committee and the Supervisory Board with respect to the German Corporate Governance Code for 2011. The full wording of the current and previous declarations of compliance can be found on the company website.

Annual and consolidated financial statements/Audit

The annual financial statements of Henkel AG & Co. KGaA and the management report have been prepared by the Management Board in accordance with the provisions of the German Commercial Code [HGB]. The consolidated financial statements and the Group management report have been prepared by the Management Board in accordance with International Financial Reporting Standards (IFRS) as endorsed by the European Union, supplemented by the provisions under commercial law applicable pursuant to Section 315a (1) HGB.

The auditor appointed for 2010 by the last Annual General Meeting – KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin – has examined the 2010 annual financial statements of Henkel AG & Co. KGaA and the 2010 consolidated annual financial statements, including the management reports, in compliance with the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and – in the case of the consolidated financial statements – in supplementary compliance with International Standards on Auditing (ISA), and has issued them with an unqualified opinion.

KPMG reports that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of Henkel AG & Co. KGaA in accordance with generally accepted German accounting principles, and that the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group, in compliance with International Financial Reporting Standards, for the year under review. KPMG further confirms that the consolidated financial statements and Group management report for the year under review meet the requirements of Section 315a (1) HGB.

The annual financial statements and management report, consolidated financial statements and Group management report, the audit reports of KPMG and the recommendations by the Personally Liable Partner for the appropriation of the profit made by Henkel AG & Co. KGaA were duly laid before all members of the Supervisory Board. We examined these documents and discussed them at our meeting of February 22, 2011. This was attended by the auditor, which reported on its main audit findings. We received the audit reports and voiced our acquiescence therewith. The Chair of the Audit Committee provided the plenary session of the Supervisory Board with a detailed account of the treatment of the annual and the consolidated financial statements by the Audit Committee. Having received the final results of the review conducted by the Audit Committee and concluded our own examination, we see no reason for objection to the aforementioned documents. The assessment by the Personally Liable Partner of the position of the company and the Group coincides with our own appraisal. At our meeting of February 22, 2011, we concurred with the recommendations of the Audit Committee and therefore approved the annual financial statements, the consolidated financial statements and the management reports as prepared by the Personally Liable Partner.

Taking into account the financial position and results of operations of the corporation, its medium-term financial and investment planning and the interests of the shareholders, we discussed and approved the proposal of the Personally Liable Partner to pay out of the unappropriated profit of Henkel AG & Co. KGaA a dividend of 0.70 euros per ordinary share and of 0.72 euros per preferred share, and to allocate the remaining amount to other retained earnings and – together with the amount attributable to the treasury shares held by the company at the time of the Annual General Meeting – retained earnings carried forward to the following year. We consider the proposed dividends to be reasonable and appropriate. At this meeting, we also ratified our proposals, based on the recommendations of the Audit Committee, for resolution to be presented before the Annual General Meeting relating to the appointment of the external auditor for the next financial year, and discussed the focal points and costs of the audit of the financial statements.

Risk management

Risk management issues were examined not only by the Audit Committee but also in the plenary sessions of the Supervisory Board. The emphasis was on the risk management system in place at Henkel and any major individual risks of which we needed to be notified. There were no identifiable risks that might jeopardize the continued existence of the corporation as a going concern. The structure and function of the risk management system were also integral to the audit performed by KPMG, which found no cause for reservation. It is our considered opinion that the risk management system corresponds to the statutory requirements and is fit for the purpose of early identification of developments that could endanger the continuation of the corporation as a going concern.

Changes in the Supervisory Board and the Management Board

Having taken retirement, Mr. Fritz Franke and Mr. Bernd Hinz resigned from the Supervisory Board effective December 31, 2009 and July 31, 2010 respectively. They were succeeded by new members Mr. Mayc Nienhaus as of January 1, 2010 and Mr. Edgar Topsch as of August 1, 2010. Mr. Konstantin von Unger resigned from the Supervisory Board as of the end of the 2010 Annual General Meeting. We expressed our unreserved gratitude to all the departing members for their committed involvement in the Supervisory Board's work.

Dr. Kaspar Freiherr von Braun was newly elected to the Supervisory Board. In addition, Dipl.-Kfm. Johann-Christoph Frey, who replaced Dipl.-Ing. Albrecht Woeste on the Supervisory Board in 2009 and whose mandate, in compliance with the provisions of the German Corporate Governance Code, was limited to the end of the 2010 Annual General Meeting, was re-elected. We elected Mr. Frey as a member of the Nominations Committee.

Mr. Thomas Geitner resigned from the Management Board effective December 31, 2010. At our meeting of December 14, we thanked Mr. Geitner for the successful completion of the integration of the National Starch activities within the adhesives business of Henkel, providing us with exceptional global positions as world market leader in this industry. Newly appointed to the Management Board, Mr. Jan-Dirk Auris took over as Executive Vice President responsible for the Adhesive Technologies business sector as of January 1, 2011.

At our meeting of February 22, 2011, we said goodbye to Dr. Friedrich Stara, who retires as of March 1, 2011. We expressed our thanks to Dr. Stara – who joined Henkel in 1976 and, since July 2005, has filled the role of Executive Vice President responsible for the Laundry & Home Care business sector – for his many years of commitment and highly successful contribution to the Henkel Group. Worthy of particular mention in this respect is the development of our businesses in Eastern Europe, which Dr. Stara oversaw with exceptional success as President of Henkel Central and Eastern Europe from 1998 to 2005.

Effective January 1, 2011, Mr. Bruno Piacenza joined the Management Board and, as of March 1, 2011, will take over from Dr. Stara as Executive Vice President responsible for the Laundry & Home Care business sector.

We wish Mr. Auris and Mr. Piacenza every success in their new roles.

Düsseldorf, February 22, 2011

On behalf of the Supervisory Board

Simone Bagel-Trah

Dr. Simone Bagel-Trah
(Chairwoman)

Shares and bonds

- Henkel share prices outpace overall market to reach new historic highs
- Weighting of the Henkel preferred share within the DAX 30 increased
- International, widely diversified shareholder structure
- Ongoing and extensive capital market communications

Henkel share prices again experienced above-average increases in 2010, reaching historic highs. Thanks to the end of the global recession and positive growth rates in the world economy, the DAX gained 16.1 percent compared to the closing price of the previous year. The industry benchmark in the form of the Dow Jones Euro Stoxx Consumer Goods index increased by 25.6 percent. Within this positive market environment, the price of Henkel's preferred shares actually outpaced that increase, closing the year at 46.54 euros, 27.7 percent above the prior-year level, having reached a historic high on December 1 with 48.40 euros. Closing at 38.62 euros, our ordinary shares showed an increase of 24.0 percent, having likewise reached a historic high of 40.30 euros on December 6.

In the first ten months of 2010, Henkel shares initially tracked the market as a whole with overall positive tendencies, thereafter rising substantially as the end of the year approached. Henkel share price levels were positively influenced by the very strong operational developments undergone by the company. Toward year-end, Henkel's shares were able to successively further improve on their previous highs, outperforming the relevant benchmark indexes.

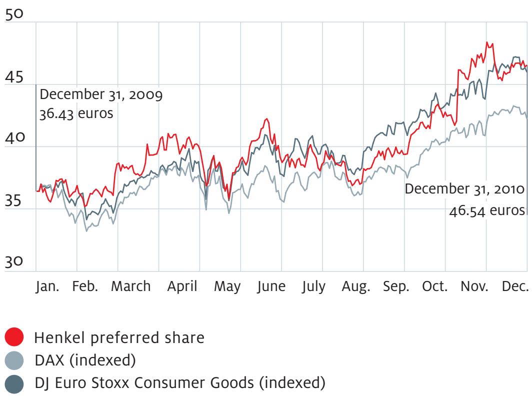
Trading volumes in preferred shares remained almost unchanged in the year-on-year comparison. Each trading day saw an average of 1.0 million preferred shares changing hands (previous year: 1.0 million). The average volume in the case of our ordinary shares decreased to 130,000 per trading day (previous year: 200,000). Due to the positive increase in share price levels, the market capitalization of our ordinary and preferred stock combined rose from 14.6 billion euros to 18.3 billion euros.

For long-term investors, Henkel's shares remain a very attractive investment. Shareholders who invested 1,000 euros when Henkel's preferred shares were issued in 1985, and then re-invested the dividends received (before tax deduction) in the stock, would have had a portfolio value of about 14,344 euros by the end of 2010. This represents an investment growth of 1,334 percent or an average yield of 11.1 percent per year. Over the same period, DAX tracking would have provided an annual yield of 7.4 percent. And over the last five and ten years, Henkel preferred shares have shown an average yield of 12.4 and 9.1 percent per year respectively, offering a significantly higher return than the DAX which yielded 5.0 and 0.7 percent in the same respective periods.

www.henkel.com/shares

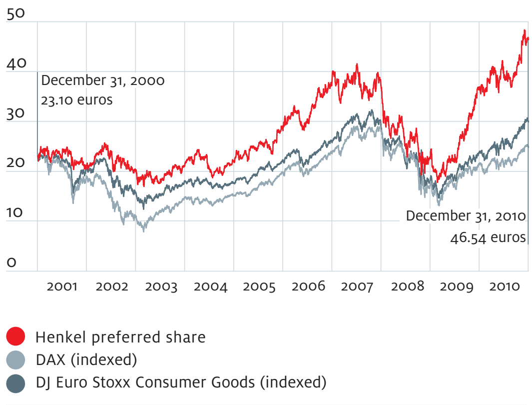
Henkel preferred share performance versus market 2010

in euros



Henkel preferred share performance versus market 2001 to 2010

in euros



Key data on Henkel shares 2006 to 2010

in euros	2006[1]	2007[1]	2008	2009	2010
Earnings per share					
Ordinary share	1.97	2.12	2.81	1.38	**2.57**
Preferred share	1.99	2.14	2.83	1.40	**2.59**
Share price at year-end[2]					
Ordinary share	32.73	34.95	18.75	31.15	**38.62**
Preferred share	37.16	38.43	22.59	36.43	**46.54**
High for the year[2]					
Ordinary share	33.14	37.50	34.95	31.60	**40.30**
Preferred share	37.82	41.60	38.43	36.87	**48.40**
Low for the year[2]					
Ordinary share	25.66	29.96	16.68	16.19	**30.31**
Preferred share	28.21	33.70	19.30	17.84	**35.21**
Dividends					
Ordinary share	0.48	0.51	0.51	0.51	**0.70[3]**
Preferred share	0.50	0.53	0.53	0.53	**0.72[3]**
Market capitalization[2] in bn euros	**15.1**	**15.9**	**8.9**	**14.6**	**18.3**
Ordinary share in bn euros	8.5	9.1	4.9	8.1	**10.0**
Preferred share in bn euros	6.6	6.8	4.0	6.5	**8.3**

[1] Comparable based on share split (1:3) of June 18, 2007.
[2] Closing share prices, Xetra trading system.
[3] Proposed.

€18.3 bn
market capitalization.

Henkel shares listed in all major indexes

Henkel shares are predominantly traded on the Xetra electronic market of the Frankfurt Stock Exchange. Henkel is also represented on the floor of this and all other regional stock exchanges in Germany. In the USA, investors are able to acquire Henkel preferred and ordinary shares by way of stock ownership certificates obtained through the Sponsored Level I ADR (American Depositary Receipt) program. The number of ADRs representing ordinary and preferred shares outstanding at the end of the year was about 4.1 million (end of 2009: 5.1 million).

Share data

	Preferred	Ordinary
Security code no.:	604843	604840
ISIN code	DE0006048432	DE0006048408
Stock exch. symbol	HEN3.ETR	HEN.ETR
Number of shares	178,162,875	259,795,875

ADR data

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

The international importance of Henkel preferred shares derives not least from their inclusion in major indexes that serve as important indicators for the capital markets and as benchmarks for fund managers. Particularly noteworthy in this respect are the MSCI World, the Dow Jones Euro Stoxx, and the FTSE World Europe indexes. Henkel is also listed in the Dow Jones Titans 30 Personal & Household Goods Index, confirming our position as one of the 30 most important listed corporations operating in the personal and household goods sectors worldwide. And as a DAX stock, Henkel counts as one of the 30 most important listed companies in Germany.

As of year-end 2010, the market capitalization of the DAX-relevant preferred shares was 8.3 billion euros, placing Henkel 21st among the DAX companies (2009: 20th). In terms of trading volumes, Henkel was ranked 26th on the list (2009: 28th). Our DAX weighting rose to 1.32 percent (2009: 1.22 percent).

International shareholder structure

The ownership structure of our preferred shares – the significantly more liquid class of stock – shows a free float of 100 percent. A large majority of these shares are owned by institutional investors with globally distributed shareholdings.

According to notices of disclosure received by the company, members of the Henkel family own a majority of the ordinary shares amounting to 53.21 percent. We have received no further notices

Shareholder structure: Institutional investors holding Henkel preferred shares

- 27% USA
- 23% UK
- 14% Germany
- 10% France
- 17% Rest of Europe
- 9% Rest of World

Source: Thomson Reuters.

Analyst recommendations

- 52% Buy
- 29% Hold
- 19% Sell

At December 31, 2010; basis: 31 equity analysts.

of disclosure from other shareholders indicating a shareholding in excess of 3 percent of the voting shares (notifiable ownership).

In the period up to 2007, Henkel repurchased around 7.5 million preferred shares to fund the Stock Incentive Plan operated for our senior executive personnel. As of December 31, 2010, this treasury stock amounted to 4.0 million preferred shares.

Employee share program

Since 2001, Henkel has been operating an employee share program (ESP). For each euro invested by an employee (limited to 4 percent of salary up to a maximum of 5,000 euros per year), Henkel added an additional 33 cents in 2010. The number of subscribers increased by 12 percent in the year under review compared to the previous year, with around 10,500 employees in 57 countries buying Henkel shares within the framework of this program. At year-end, around 14,000 employees held a total of some 3.6 million shares within the ESP, representing roughly 2.0 percent of the total preferred shares outstanding. The vesting period for newly acquired ESP shares is three years.

Henkel bonds

Henkel is represented in the international bonds markets by three bonds with a total nominal volume of 3.3 billion euros:

Bond data

	Senior bond	Senior bond	Hybrid bond
Due date	June 10, 2013	March 19, 2014	Nov. 25, 2104[1]
Volume	1.0 billion euros	1.0 billion euros	1.3 billion euros
Nominal coupon	4.25%	4.625%	5.375%
Coupon payment date	June 10	March 19	Nov. 25
Listing	Frankfurt	Luxembourg	Luxembourg
Security code no.	664196	A0AD9Q	A0JBUR
ISIN code	DE0006641962	XS0418268198	XS0234434222

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

Further detailed information regarding these bonds, current developments in their respective prices and the associated risk premium (credit margin) can be found on our website www.henkel.com/bonds

Pro-active capital market communication

Henkel is covered by numerous financial analysts, primarily in the UK, Germany and the USA. Over 35 equity and debt analysts regularly publish reports and commentaries on the performance of the company.

Henkel places great importance on meaningful dialogue with both investors and analysts. In 2010, institutional investors and financial analysts were afforded the opportunity to talk directly with our top management in more than 30 capital market conferences and road shows held in Europe, North America and Asia. The two highlights of the year were our Analyst and Investor Conference held in Düsseldorf on February 25, 2010, and our Investor Day for the Adhesive Technologies business sector, which took place on September 16, 2010. At this latter conference, the Adhesive Technologies management team presented the strategy and new developments of the business sector to some 70 investors and analysts from around the world. In addition, we held numerous telephone conferences and one-on-one meetings – amounting to more than 500 events in all.

Private investors are able to receive all relevant information through telephone enquiry or via the Investor Relations website www.henkel.com/ir. This also serves as the medium for the live broadcast of telephone and analyst conferences as well as the transmission of the Annual General Meeting. The AGM offers all shareholders the possibility of obtaining extensive information directly from Henkel's management.

The quality of our capital market communications was evaluated in 2010 by various independent rankings. Once more, our Investor Relations team garnered a number of top positions in various comparisons with European corporations in the home & personal care category, as well as with other DAX companies – taking, for example, the number-one position in both the ThomsonExtel and the IR Magazine rankings for European home & personal care companies.

You will find a **financial calendar** with all our important publishing and announcement dates on the inside back cover of this Annual Report.

Our Management Board

Kasper Rorsted
Chairman of the Management Board; born 1962; with Henkel since 2005.

Dr. Lothar Steinebach
Executive Vice President Finance/Purchasing/IT/Legal; born 1948; with Henkel since 1980.

Dr. Friedrich Stara
Executive Vice President Laundry & Home Care until February 28, 2011; born 1949; with Henkel since 1976.

Hans Van Bylen
Executive Vice President Cosmetics/Toiletries; born 1961; with Henkel since 1984.

Jan-Dirk Auris
Executive Vice President Adhesive Technologies since January 1, 2011; born 1968; with Henkel since 1984.

Bruno Piacenza
Member of the Management Board since January 1, 2011 and, from March 1, 2011, Executive Vice President Laundry & Home Care; born 1965; with Henkel since 1990.

Management Board of Henkel Management AG, January 2011.

Our Vision

A global leader in brands and technologies.

Our Values

We put our **customers** at the center of what we do.

We hold our customers in the highest regard and place them at the center of all that we do. This is the only way we can offer them added value. The “customer” value is vital to our success, and since not all Henkel employees are in direct contact with our customers, it is all the more important for us to understand what this value means for Henkel. In order to offer the best products, the highest quality and outstanding service, we need to understand our customers and consumers better than our competitors do. If we succeed in this, we can look forward to successful growth in all our markets.

We value, challenge and reward our **people**.

People always make the difference. Through their creativity and knowledge, good ideas become great business successes. They are our interface with our customers, make innovation possible, develop successful strategies and give our company its unique identity. Only by valuing, challenging and rewarding our employees will we establish a “Winning Culture” within Henkel. It is up to each of us to set a good example: in the way we lead our teams and in the way we take personal responsibility for our development. Together we will make Henkel a global leader in brands and technologies.

We drive excellent sustainable **financial** performance.

We are pursuing our strategic priorities in order to achieve our financial targets and make Henkel even more successful. Excellent and sustainable financial performance allows us to act more flexibly in the future. It enables healthy growth over the long term, and will benefit not only our shareholders but also our employees. This value influences our decisions on investments, personnel, strategies, our teamwork and many other aspects of our daily business.

We are committed to leadership in **sustainability**.

A strong commitment to sustainability has always been a major driver of our performance. We take a long-term, entrepreneurial approach toward all elements of sustainability, aiming not just to comply with existing standards but also to set new ones. Henkel has always strived to create a balance between people, planet and profit. This approach brings us a clear competitive advantage and helps us achieve our full business potential – and it will provide us with a significant edge in the future competition for new talent.

We build our future on our **family** business foundation.

The “family” value makes us unique. We build our future on a solid foundation. Since 1876, the year Henkel was founded, the Henkel family has shown a strong commitment to the company. The family provides us the opportunity to operate in the long term. It also supports us when we have to make difficult strategic decisions. We are committed to leading Henkel with an entrepreneurial spirit, which has been a strong characteristic since our foundation, and that is what ultimately makes the difference in the marketplace.

We put our customers at the center of what we do.

We anticipate, respond to and meet our customers’ and consumers’ expectations by providing the best value, quality, and most innovative brands and technologies.

Pattex brings the internet to the shelves: with a camera phone, the link in the form of a quick response code on the pack is instantly captured, enabling the relevant web page to be quickly retrieved.

Trade marketing manager Dagmar Nelles (left) and Jochen Wagener (second from the left), Head of Marketing Consumer Adhesives Germany, talking to do-it-yourselfer Philipp Schmid at one of the newly designed Pattex shelving systems.

Guiding Pattex customers around the shelves

Market research studies into consumer behavior during the purchase of adhesives have shown that shoppers feel overwhelmed by the huge variety of products on show. So Henkel has developed a new shelf concept for household adhesives in DIY stores. It quickly leads consumers to the right product, increasing their satisfaction at a stroke. Colored orientation aids and a new classification structure within the shelving take the frustration out of the search. Plus: our widely known brands Pattex, Pritt and Ponal now have a new packaging design with clear category designations.

An easy-to-use customer advice computer with an online link at the shelving offers additional information on the bonding performance of more than 1,700 types of adhesive. By mid-2011, around 1,000 DIY stores will be equipped with this new adhesive product shelving system.

Oliver Bossmann
Vice President Consumer and Craftsmen Adhesives Germany and Switzerland.

Increasing customer satisfaction

“We want to enhance the satisfaction of both our trade customers and our consumers within successful, enduring business relationships. Our retail clients are also our partners and an integral part of our business model. Consequently, we need to ensure that their expectations are fulfilled to the best possible degree. Only by focusing on our customers can we achieve our full business potential. So it is all the more important that we support our trade clients in their efforts to satisfy the consumer. Innovative solutions such as the new Pattex shelving system with its clear structure, informative labeling, and the integral computer for direct access to the latest information on the internet, ensure that consumers in the DIY store quickly get the details they need. Because these new concepts enable them to find the right adhesive, there is less load on the sales personnel, and the number of mis-buys, returns and complaints is reduced, thus promoting customer satisfaction.”

Creating added value for customers

Focusing on our customers and consumers is key to our success. Hence our corporate value of putting our customers at the center of what we do. And it isn't just our employees in Marketing, Customer Services or Sales and Distribution – the people who are in direct and daily contact with customers – to whom this applies, it's all our people. Because whether in research, human resources or accounting, the decisions made invariable filter through to our customer relations.

In all that we do, this core value reminds us that our customers in industry, in retail and in the building trades are more than just purchasers of our products, technologies and services – they are also our partners. Together with them, we develop solutions tailored to their specific needs. Our solutions also increase the quality and sustainability of the products that our customers offer to their customers. For example in the automotive industry where our customers are constantly striving to produce innovative vehicles capable of withstanding extreme stresses and loads. To assist them in this endeavor, our experts work closely with their experts, researching and testing in order to develop the right adhesives, sealants and surface treatments. Applied to car bodies, our products and technologies increase accident safety, damp vibrations and noise, protect against corrosion, reduce weight and thus fuel consumption, and extend vehicle service lifetimes.

Through our innovations, we create added value for our customers and consumers, at the same time laying the foundation stone for further growth in all our markets.

ASK Academy Schwarzkopf trains hairdressers

ASK Academy Schwarzkopf offers hairdressers in 38 countries professional training to provide both technical and business know-how. Over 460,000 hairdressers passed through these Schwarzkopf Professional courses in 2010, learning cutting, coloring and styling techniques as well as management skills.

In Asia and South America in particular, ASK helps to establish training standards and development courses for hairdressers.

Green Yao, a seminar leader from Schwarzkopf Professional in China, demonstrates on a model how hair is parted into sections as preparation for a professional cut. The audience is made up of both upcoming hairdressers and Schwarzkopf customers, all keen to expand their skill base by participating in an "Essential Look" cutting seminar, provided here by ASK Academy Schwarzkopf in Shanghai.

www.ask-schwarzkopf.com

Practical tests for the cars of tomorrow

In the Global Technology Center of the Adhesive Technologies business sector in Heidelberg, Germany, customers and employees are trained and innovative adhesives, sealants, coating technologies and application processes developed – all to the highest standards. Our experts carry out tests for and develop prototypes with clients from the automotive, components and transport industries. Our customers benefit enormously from the knowledge of our adhesives experts, with optimum solutions the invariable outcome.

Application engineers Mario Werner (left) and Harald Nees have just applied a sound-damping coating to a car body with the aid of a robot-assisted application system. Now, Harald Nees is checking the layer thickness.

We value, challenge and reward our people.

We treat each other with respect and dignity and develop our capabilities. We expect everyone to take personal responsibility and perform to high standards. We rely on each other for our success as a company.

In their Vision and Values Workshop in Shanghai, Antje Chu (second from the left) and her team from Cosmetics/ Toiletries Asia-Pacific discussed how they could successfully implement the vision and values as a means of focusing on their customers and consumers. Next to Antje Chu (from left to right): Paul Khol, Vijay Manickavasagam and Rungaroon Koohasaneh.

Vision and Values Workshops

"Henkel Day," September 24, 2010 – the company's "birthday" – heralded the start of a wave of Vision and Values Workshops for Henkel's employees around the world. In all our sites, line managers sat together with their teams in order to explore and discuss our vision and values. They analyzed the direct significance that these had for their day-to-day work and drafted a list of actions for the future. Such close scrutiny gives employees a heightened awareness of the relevance of the vision and values to themselves, their team and their work, and enables them to more effectively apply the associated principles.

By the end of 2010, some 5,000 workshops had taken place around the world. Every workshop produced a specific action plan in which each team prepared a written record precisely defining time schedules and responsibilities for the identified measures.

Kathrin Menges
Global Head of Human Resources at Henkel.

Challenging and rewarding our people

"At Henkel, we are striving to establish a 'Winning Culture' characterized by a clear focus on performance and the will to succeed in a highly competitive international environment. In order to promote and underpin this corporate culture, we have put in place a system enabling us to both challenge and reward our people, encouraging outperformance with a compensation system offering clear incentives.

Our line managers bear a major responsibility for the development of their teams and the nurturing of talent through objective, candid feedback. And we encourage each and every individual to assume responsibility for their career and future development – for which Henkel as a global company offers a wide range of attractive possibilities.

Our orientation to a clear vision and shared values is an important prerequisite for the achievement of success. We want all our employees to understand our values and to incorporate them into their daily activities and decision-making processes."

Employees as vital factors for success

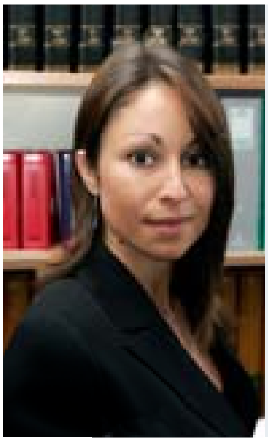
Henkel is a globally active corporation with around 48,000 employees of whom 80 percent work outside Germany. Collaborating with our customers, they develop innovations, successfully implement strategies and provide the company with its unique identity. Our employees are a vital factor for success in the competitive international environment in which we operate.

Our new vision and the revised values have been introduced in order to contribute to establishing a sustainable "Winning Culture" within the company. A shared vision and actively promoted values generate a feeling of unity and offer us guidance in the performance of our everyday work. They encourage us to develop innovative and sustainable products, technologies and services for our customers, and to devise effective marketing, selling and distribution concepts.

Around the world, our corporate culture serves as a bond, enabling us to utilize the full potential of our internationality and diversity. Our employees have a key role to play in our future success: by being open, by adopting a positive approach to new developments and challenges, by helping to shape events, by adopting an entrepreneurial attitude and through their willingness to assume and accept responsibility.

"It is important for a company to have a vision and values for employees to follow. They reinforce what our organization is striving for and the goals we are trying to attain. They give us guidance on doing what's best for our business."

Crystal Frazier, *Chemist, Product Development Adhesive Technologies, USA.*



"Our vision and values are authentic. Abiding by these values in our daily life will definitely help us establish a 'winning culture' and differentiate us from our competitors – by reminding us never to let the consumer down and to be compliant in all circumstances."

Emmanuelle Manier, *Key Account Lawyer, Legal Department, France.*

"Henkel performs within a family-business atmosphere, with belief and trust in its people and a willingness to take risks with them. Proof of this can be found in the emerging markets where Henkel started as a small player and is now a competitive, strategic company for its customers."

Eduardo Díaz Cortazar, *Laundry & Home Care Walmart Team Leader, Mexico.*

"The 'people' value supports a fundamental human need for respect, to be appreciated and rewarded for excellent performance, to be supported by our colleagues and to be part of a successful team."

Olga Gadetskaya, *Human Resources Director Henkel Russia.*

Around **32 %** of our employees are women.

Around **29 %** of our managerial staff are women.

AR Pages 55 to 57.

SR Sustainability Report, pages 30 to 37.

We drive excellent sustainable financial performance.

We are a performance-driven company committed to growing the value of our business and providing a competitive return to our shareholders.

Maria Lancellotti monitors the filling of liquid laundry and home care detergents in Düsseldorf. The plastic bottles are manufactured by an external supplier in a facility next to the filling plant, maximizing both cost efficiency and environmental compatibility.

Integrating suppliers in our production process

Within Laundry & Home Care, all our major liquid-product factories collaborate with selected partners for the manufacture of plastic containers right next to the production line.

The majority of our bottles are supplied in this way. Working hand-in-hand with our suppliers, we can optimize the manufacturing processes on our sites while maintaining high flexibility and low inventories. This approach also reduces our carbon footprint – due to the avoidance of thousands of truck loads and more than a million kilometers in the transportation of empty plastic containers.

Promoting the global implementation of this logistics concept has taken us to the top of international supply chain benchmarks within the detergents industry.

Gaby Deussen
Head of the Shared Service Center in Bratislava, Slovakia.

High efficiency through centralized services

“Our Shared Service Centers in Bratislava and Manila serve the global Henkel organization primarily in the fields of finance, procurement, human resources and information technology (IT).

Processes such as invoice recording, costing, and the preparation of price lists or reports, to name but a few, are performed centrally by specialist teams within the Henkel organization. As these services are provided on behalf of many units at Henkel, we can achieve a high degree of standardization, assisted by our advanced, high-performance IT systems, enabling us to increase overall efficiency and speed while reducing the costs for each individual operation.

Important processes also become more transparent and we can guarantee better compliance. Further, these facilities enable us to attract young management talent from within Henkel’s emerging markets. And I am sure that the SSC concept offers a great deal more for the future.”

Profitable growth

Efficient processes and effective development are the cornerstones of our economic success. For us as a performance-driven company, progress in these domains is key if we are to maintain and constantly strengthen our long-term competitiveness. We intend, through innovation, to grow faster than our peers in our highly competitive markets, and to develop new markets wherever we can.

Increasing profitability is not an end in itself. On the other hand, we can only spend money that we earn. The more we earn, the more we can invest in research and innovations, and in our markets.

This basic understanding guides the approach adopted by our three business sectors and our corporate functions, each of which endeavors to optimize its processes and find synergies within the value chain – in close alliance with our strategic suppliers and our partners in research, development, production and logistics.

A high level of profitability guarantees us greater financial scope, gives us more flexibility and enhances our development possibilities. And the better we manage our business, the better are the conditions under which we can obtain funds for investment from the financial markets.

The success of the Schwarzkopf brand

Our hair cosmetics brand Schwarzkopf is the biggest and fastest growing within the Henkel portfolio. Indeed, it is one of the most important hair cosmetics brands in the world. Its sales have grown from 500 million euros in 1995 to 1.8 billion euros in 2010. For the last 113 years, the name Schwarzkopf has been synonymous with hair competence, and values such as modernity, high quality and innovative strength. This makes Schwarzkopf an ideal umbrella for a clearly differentiated brands portfolio serving both our consumer segment and our international hair salon business, Schwarzkopf Professional.

20
quarters of profitable growth in a row posted by our Cosmetics/Toiletries business sector.

Communication with the capital market

The Investor Relations team from Henkel had more than 500 meetings and events involving investors and analysts last year. One of the main highlights happened on September 16, 2010 in Düsseldorf: top management from Adhesive Technologies provided around 70 international investors and analysts with a comprehensive insight into our adhesives markets, innovative portfolio and growth drivers. Aside from presentations, Henkel employees held an exhibition to show investors and analysts more of the great potential that Adhesive Technologies has to offer.

Peter Rushe presents to the audience of investors and analysts some of our new products for consumers and craftsmen: Pattex Power PU Foam and the Pritt Ecomfort Roller.

We are committed to leadership in sustainability.

We provide products, technologies and processes that meet the highest standards. We are committed to the safety and health of our employees, the protection of the environment and the quality of life in the communities in which we operate.

At the Puerto Errado 1 pilot thermal power plant in Southern Spain, Meike Schumann, quality engineer at Novatec Biosol, and Thomas Wittmann, field representative at Henkel, discuss the performance of Henkel's Terostat MS adhesives. The banks of mirrors generate energy by concentrating the sun's rays.

Solar energy with adhesives from Henkel

Around the world, our researchers and engineers develop products and technologies that combine top performance with economic and ecological benefits for our customers and consumers. With our adhesives expertise, for example, we have been supporting the company Novatec Biosol since 2006 in the development of concentrated solar thermal systems – mirrors that generate energy from sunlight. The challenge was to bond the slightly curved mirrors to their galvanized steel frames. An elastic Terostat MS adhesive combined with a hardener compound proved to be the best solution. The adhesives – which do not require hazard labeling – offer exceptional weather resistance. By the end of 2011, a 30-megawatt power plant will have been built in Southern Spain using our adhesives. This Adhesive Technologies project is an excellent example of how we cooperate with our customers in the development of new, sustainable technologies that are also economically viable.

For the fourth time in a row, Henkel has been named as sector leader in the Dow Jones Sustainability World Index and in the DJSI Europe, again taking first place in the "Fast Moving Consumer Goods" category.

The sustainability challenge

"Companies are facing a very significant and growing challenge; that is, regulators, suppliers, employees and customers increasingly expect them to act thoughtfully regarding their use of energy and natural resources, their impact on the environments in which they operate and the well-being of the people and communities they serve.

At the same time, companies must make profits commensurate with their investments and shareholders' expectations. In 2011 and beyond, determining strategies and taking actions that create sustainable outcomes will be the key to industry leadership.

Henkel was among the first global companies to make a profound commitment to sustainability as a core value. It has done a remarkable and commendable job of achieving balance among quality products, profitability and sustainability, something that other companies should emulate."

Dr. Rob Melnick
Executive Dean, Global Institute of Sustainability, Presidential Professor of Practice, School of Sustainability at the Arizona State University, USA.

Responsibility toward people and the environment

Sustainable development has always been part of the Henkel credo. With our brands and technologies, and also as an employer, we endeavor to meet the needs of people today without jeopardizing the development opportunities of future generations.

We pursue the precepts of sustainable development and corporate social responsibility along the entire value chain. This has contributed to the acquisition of an outstanding reputation for us as a company and of globally leading positions in our markets. And, with sustainability becoming an increasingly important factor for success in a competitive world, we fully intend to further extend this lead.

Our passion for combining product performance with responsibility for people and the environment drives innovation, bringing commercial success to both ourselves and our customers. We offer the latter efficient and environmentally sound products, technologies and services with consumer-relevant benefits. And our portfolio also empowers consumers to use resources in a more sustainable manner – without any adverse effect on their quality of life. Through effective communication, we explain to consumers the advantages of our products, helping to ensure their efficient use.

Day in, day out, millions of customers and consumers around the world decide in favor of our brands and technologies as our core value-add for society. Our products, systems and services help support climate protection, promote resource conservation and encourage social progress.

Fritz Henkel Foundation
In January 2011, Henkel established the Fritz Henkel Foundation. In the future, the foundation will serve as the umbrella for our social engagement. The establishment of the foundation underscores Henkel's long-term commitment for societal concerns that extend beyond its direct business interests. The mission of the foundation comprises support for volunteer work on the part of our employees, international disaster aid, and corporate and brand engagement.

www.henkel.com/smile

Aid for schoolchildren in Nigeria

Emmanuel Nweke, IT advisor at Henkel's Global Delivery Service in Düsseldorf, shows children in Awkuzu, Nigeria, how to work and learn with laptops donated by Henkel through the MIT volunteering initiative. For most of the children, this is their first ever contact with a computer. Emmanuel Nweke's project "Awkuzu Children" opens the door to a better education for these kids. Donations provided since 2007 have been used to equip two school buildings and purchase essential educational materials.

Some **730,000** people in 72 countries around the world were helped by Henkel Smile projects in 2010.

Modern energy technology in Toluca

We are continuously optimizing production in our factories. In our Toluca laundry products plant in Mexico, the introduction of new technologies such as a "secondary air injection system" has, since 2007, reduced energy consumption in powder production by 28 percent per ton. The production plant, commissioned in 2009 for the manufacture of liquid detergents, is also state-of-the-art, with exceptional water and energy efficiencies. Here too, the packaging is manufactured next to the production line.

AR Pages 62 to 65.

SR Sustainability Report, page 26.

We build our future on our family business foundation.

We value the continuity of our purpose and vision based on our long history of success and a strong focus on our values. We are guided by our long-term vision which rests on a fair entrepreneurial spirit and a solid financial basis.

The company and the family
The Henkel HQ of our North American consumer goods business in Scottsdale, Arizona, was inaugurated in March 2009. And, as in Düsseldorf, Moscow, Shanghai and Vienna, there is a bust at the entrance of company founder Fritz Henkel. This symbolizes both our entrepreneurship and the close ties that exist between the company and the family, happily perpetuated by Dr. Simone Bagel-Trah and, from the fourth generation of Henkel family, Dipl.-Ing. Albrecht Woeste, Chairman of both the Supervisory Board and the Shareholders' Committee between 1990 and 2009.

Identity and orientation

With the entrepreneurial spirit of company founder Fritz Henkel – still an example for our employees around the world – having left an indelible mark on the corporation, the "family" value provides us with a quite special and unmistakable identity.

Henkel has always been a company with firmly held beliefs. Naturally, companies and their environments change in the course of time. However, these core values are as valid today as ever they were. For founder Fritz Henkel too, it was the customer who was at the focal point of every decision, with the company equally conscious of its responsibility toward its employees and its duty to pursue sustainable economic development.

The "family" value represents a clear commitment on the part of the Henkel family to the company. The importance of entrepreneurship and responsibility for the future, so deeply rooted in our history, is reaffirmed time and time again by people both inside and outside the company. The "family" value distinguishes us from other companies. Ours is a long-term perspective. But we also know that without short-term success, there can be no long-term success.

Dr. Jost Henkel Foundation

Since 1958, the "Dr. Jost-Henkel-Stiftung" has been supporting students with a stand-out study record who are unable to sufficiently finance the expeditious completion of their studies from within their own means. Scholarships are awarded on an international basis following completion of an individual selection process. The foundation is open to all disciplines, albeit with the emphasis on business and scientific studies. The company and the Henkel family established the foundation in 1958 to mark the 25th year of service of the then CEO, Dr. Jost Henkel.

Konrad Henkel Foundation

The "Konrad-Henkel-Stiftung" has been variously promoting research and education at the Heinrich Heine University in Düsseldorf since 1985. The Henkel company established this foundation to mark the 70th birthday of long-time CEO and then Chairman of the Supervisory Board, Dr. Konrad Henkel. The main focus of the foundation is on supporting economics and the business sciences, together with the process of international knowledge interchange. In 1990, the foundation introduced an award, conferred twice a year, for the best economics students at the Düsseldorf university: the Konrad Henkel Exams Prize.

Hugo Henkel Award
Since 2005, Henkel has been awarding the "Hugo-Henkel-Preis" to schools in the communities surrounding its German sites that especially promote science and technology in their curricula. The award is named for Dr. Hugo Henkel, the younger son of company founder Fritz Henkel and the first chemist to join his father's firm.

Entrepreneurship epitomized at Henkel Bulgaria: Darina Stoyanova (center), President Henkel Bulgaria, in discussion with her assistant Nina Metodieva (left) and Panaiot Dimitrov, Head of Sales Laundry & Home Care.

Success through entrepreneurship

Under the entrepreneurial leadership of Darina Stoyanova, the Henkel Bulgaria team has successfully built a thriving national laundry and home care product business. Stoyanova is also President of Henkel Bulgaria. She and her team regard entrepreneurship as a major factor for success and market differentiator in the development of Henkel's businesses in Bulgaria.

"At the beginning, the Bulgarian market was quite turbulent, characterized by strong local and international competitors," Stoyanova reports. "Nevertheless, we have succeeded in overtaking all our competitors within just a short timeframe, so that, by 2009, we had already gained the number one spot in the market." For her, there is no doubt: "This would never have been possible without everyone in the company adopting this special entrepreneurial approach."

For Stoyanova, this also means developing a passion for the task in hand. "Those who work with passion show enthusiasm. They constantly develop their talents and achieve correspondingly high levels of performance."

The entrepreneurial approach personified by company founder Fritz Henkel and his descendants provides the paradigm for the team in Bulgaria: "Our company's history makes us proud and enables us to identify with the entrepreneurship that Henkel epitomizes," explains Stoyanova. "It also teaches us that success is a constantly developing process that takes time, hard work, stamina and forward thinking."

Henkel in Bulgaria
Henkel began exporting to Bulgaria in 1998. Just two years later, we founded Henkel Bulgaria in the capital Sofia. Today we are the Bulgarian market leader in all three of our business sectors. Our most important brands there are Bref, Ceresit, Clin, Fa, Gliss, Loctite, Moment, Palette, Persil, Perwoll, Pur, Rex, Schauma, Silan, Somat, Taft and Thomsit. The workforce driving the further success of Henkel Bulgaria currently numbers 152.

Group management report subindex

Group management report

Corporate governance at Henkel AG & Co. KGaA

Corporate governance in the sense of responsible, transparent management and control of the corporation aligned to a long-term increase in shareholder value has long been an integral component of our corporate culture, and will remain so into the future.

Consequently, the Management Board, Shareholders' Committee and Supervisory Board have committed to the following three principles:

- **Value creation** as the foundation of our management approach.
- **Sustainability** achieved through the application of socially responsible management principles.
- **Transparency** supported by an active and open information policy.

I. Corporate governance/ Corporate management report

This corporate governance report describes the principles of the management and control structure, corporate stewardship and also the essential rights of shareholders of Henkel AG & Co. KGaA; in addition, it explains the special features that arise from our particular legal form and our Articles of Association as compared to a joint stock corporation (AG in Germany). It takes into account the recommendations of the German Corporate Governance Code and contains all the information required according to Section 289 (4), Section 289 (a) and Section 315 (4) of the German Commercial Code [HGB].

www.corporate-governance-code.com

Legal form/Special statutory features of Henkel AG & Co. KGaA

Henkel is a "Kommanditgesellschaft auf Aktien" (KGaA). A KGaA is a company with its own legal personality (i.e. it is a legal person) in which at least one partner assumes unlimited liability in respect of the company's creditors (personally liable partner). The other partners participate in the capital stock, which is split into shares, and their liability is limited by these shares; they are thus not liable for the company's debts (limited partners per Section 278 (1) German Stock Corporation Act [AktG]).

The following major differences exist compared to an AG:

- At Henkel AG & Co. KGaA, the executive role is assigned to Henkel Management AG – acting through its Management Board – as the sole Personally Liable Partner (Section 278 (2), Section 283 AktG in conjunction with Article 11 of the Articles of Association [Corporate Bylaws]).
- The rights and duties of the supervisory board of a KGaA are more limited compared to those of the supervisory board of an AG. In particular, the supervisory board is not authorized to appoint personally liable partners, to preside over the associated contractual arrangements, to impose procedural rules on the management board or to rule on business transactions. A KGaA is not required to appoint a director of labor affairs, even if, like Henkel, the company is bound to abide by Germany's Codetermination Act of 1976.
- The general meeting of a KGaA essentially has the same rights as the shareholders' meeting of an AG. In addition, it votes on the adoption of the annual financial statements of the corporation; it further formally approves the actions of the personally liable partner(s). In the case of Henkel, it also elects and approves the actions of the members of the Shareholders' Committee. Resolutions passed in general meeting require the approval of the personally liable partner where they involve matters which, in the case of a partnership, require the authorization of the personally liable partners and also that of the limited partners (Section 285 (2) AktG) or relate to the adoption of annual financial statements (Section 286 (1) AktG).

According to our Articles of Association, in addition to the Supervisory Board, Henkel also has a standing Shareholders' Committee comprising a minimum of five and a maximum of ten members, all of whom are elected by the Annual General Meeting [AGM] (Article 27 of the Articles of Association). The Shareholders' Committee is required in particular to perform the following functions:

- It acts in place of the AGM in guiding the business activities of the corporation.
- It decides on the appointment and dismissal of the personally liable partner(s).
- It holds both the power of representation and executive powers over the legal relationships prevailing between the corporation and Henkel Management AG, the Personally Liable Partner.
- It exercises the voting rights of the corporation in the General Meeting of Henkel Management AG.
- It issues rules of procedure incumbent upon Henkel Management AG (Section 278 (2) AktG) in conjunction with Sections 114 and 161 HGB and Articles 8, 9 and 26 of the Articles of Association.

Capital stock denominations/Shareholder rights

The capital stock of the corporation amounts to 437,958,750 euros. It is divided into a total of 437,958,750 bearer shares of no par value, of which 259,795,875 are ordinary bearer shares (proportion of capital stock: 259,795,875 euros or 59.3 percent) and 178,162,875 are preferred shares (proportion of capital stock: 178,162,875 euros or 40.7 percent). All the shares are fully paid up.

Each ordinary share grants to its holder one vote. The preferred shares accord to their holder all shareholder rights apart from the right to vote. Unless otherwise resolved in General Meeting, the profit attributable to shareholders of Henkel AG & Co. KGaA is distributed as follows: First, the holders of preferred shares receive a preferred dividend in the amount of 0.04 euros per preferred share. The holders of ordinary shares then receive a dividend of 0.02 euros per ordinary share, with the residual amount being distributed to the holders of ordinary and preferred shares in accordance with the proportion of the capital stock attributable to them (Art. 35 (2) of the Articles of Association). If the preferred dividend is not paid out either in part or in whole in a year, and the arrears are not paid off in the following year together with the full preferred share dividend for that second year, the holders of preferred shares are accorded voting rights until such arrears are paid (Section 140 (2) AktG). Cancellation or limitation of this preferred dividend requires the consent of the holders of preferred shares (Section 141 (1) AktG).

There are no shares bearing cumulative/plural voting rights, preferential voting rights or maximum voting rights (voting restrictions).

The shareholders exercise their rights in General Meeting as per the relevant statutory provisions and the Articles of Association of Henkel AG & Co. KGaA. In particular, they may vote (as per entitlement), speak on agenda items, ask relevant questions and propose motions.

Unless otherwise required by mandatory provisions of statute or the Articles of Association, the resolutions of the General Meeting are adopted by simple majority of the votes cast and, inasmuch as a majority of shares is required by statute, by simple majority of the voting stock represented (Art. 24 of the Articles of Association). This also applies to changes in the Articles of Association. However, modifications to the object of the company require a three-quarters' majority (Section 179 (2) AktG).

Authorized capital/Share buy-back

According to Art. 6 (5) of the Articles of Association, there is an authorized capital limit. Acting within this limit, the Personally Liable Partner is authorized, subject to the approval of the Supervisory Board and of the Shareholders' Committee, to increase the capital stock of the corporation in one or several acts until April 18, 2015, by up to a total of 25,600,000 euros through the issue for cash of new preferred shares with no voting rights. All shareholders are essentially assigned pre-emptive rights. However, these may be set aside in three cases: (1) in order to dispose of fractional amounts; (2) to grant to creditors/holders of bonds with warrants or conversion rights or a conversion obligation issued by the corporation or one of the companies dependent upon it, pre-emptive rights corresponding to those that would accrue to such creditors/bondholders following exercise of their warrant or conversion rights or on fulfillment of their conversion obligations; or (3) if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing.

In addition, the Personally Liable Partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time up to April 18, 2015. 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 stock 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 stock without further resolution in General Meeting being required.

Inasmuch as shares may be issued or used to the exclusion of pre-emptive rights, the proportion of capital stock represented by such shares shall not exceed 10 percent.

Major shareholders

According to notifications received by the company on October 21, 2010, a total of 53.21 percent of the voting rights are held by parties to the Henkel family's share-pooling agreement. This agreement was concluded between members of the families of the descendants of company founder Fritz Henkel; it contains restrictions with respect to transfers of the ordinary shares covered (Art. 7 of the Articles of Association).

Interaction between Management Board, Supervisory Board, Shareholders' Committee and other committees

The Management Board of Henkel Management AG, which is responsible for the corporation's operating business, the Supervisory Board and the Shareholders' Committee of the corporation cooperate closely for the benefit of the organization.

The Management Board agrees with the Shareholders' Committee the strategic alignment of the corporation and discusses with the Shareholders' Committee at regular intervals the status of implementation of said strategy.

In keeping with good corporate management practice, the Management Board informs the Supervisory Board and the Shareholders' Committee regularly, and in a timely and comprehensive fashion, of all issues of relevance to the corporation concerning business policy, corporate planning, profitability, the business development of the corporation and of major Group companies, and also matters relating to risk exposure and risk management.

For transactions of fundamental significance, the Shareholders' Committee has established a right of veto in the procedural rules governing the actions of Henkel Management AG in its function as sole Personally Liable Partner (Article 26 of the Articles of Association). This covers, in particular, decisions or measures that materially change the net assets, financial position or results of operations of the corporation. The Management Board complies with these rights of consent of the Shareholders' Committee and also duly submits to the spheres of authority of the corporation's General Meeting.

The Shareholders' Committee passes its resolutions on the basis of a simple majority of the votes cast. It has established a Finance Subcommittee and a Human Resources Subcommittee, each of which comprises five members of the Shareholders' Committee. The Finance Subcommittee deals principally with the financial matters, accounting issues including external auditing, taxation planning and accounting policies, and the internal auditing and risk management of the corporation. It also carries out the necessary preparatory work for decisions to be taken by the Shareholders' Committee in such affairs. The Human Resources Subcommittee principally discusses personnel matters relating to the members of the Management Board, human resources strategy, and remuneration. It is further concerned with succession planning and identifying management potential within the individual business sectors, taking into account relevant diversity aspects.

The Supervisory Board passes its resolutions by a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote. The Supervisory Board has established an Audit Committee and a Nominations Committee. The Audit Committee is made up of three shareholder- and three employee-representative members of the Supervisory Board, each elected by the Supervisory Board based on proposals of their fellow shareholder or fellow employee representatives on the Supervisory Board. The Chairperson of the Audit Committee is elected by the shareholder-representative members on the Supervisory Board. It is a statutory requirement that the Audit Committee includes an independent member of the Supervisory Board with expertise in the fields of accounting and auditing. The Chairperson of the Audit Committee, Dr. h.c. Bernhard Walter, who is not the Chairperson of the Supervisory Board or a former member of the Management Board, satisfies these requirements. The Audit Committee prepares the proceedings and resolutions of the Supervisory Board relating to adoption of the annual financial statements and the consolidated financial statements, and also the auditor appointment proposal to be made to the Annual General Meeting. It is also concerned with monitoring the accounting process, the effectiveness of the internal control system, the risk management system and the internal auditing and review system, as well as with compliance issues. It further discusses with the Management Board, with the external auditors also in attendance, the quarterly reports and the financial report for the half-year prior to publication, issues audit mandates to the auditors and defines the focal areas of the audit or review.

The Nominations Committee comprises the Chairperson of the Supervisory Board and two further shareholder representatives elected by the shareholder representatives on the Supervisory Board; the Chairperson of the Supervisory Board is also Chairperson of the Nominations Committee. The Nominations Committee prepares the proposals to be submitted by the Supervisory Board to the Annual General Meeting for the election of members to the Supervisory Board (shareholder representatives).

At regular intervals, the Supervisory Board and the Shareholders' Committee carry out an internal review to determine the efficiency with which they and their committees/subcommittees carry out their duties. This self-assessment is performed on the basis of a checklist which also contains points relating to corporate governance and improvement indicators. Pursuant to the German Corporate Governance Code, conflicts of interest must be disclosed in an appropriate manner to the Supervisory Board or Shareholders' Committee, particularly those that may arise as the result of a consultancy or committee function performed in the service of customers, suppliers, lenders or other business partners. Members encountering material conflicts of interest that are more than just temporary are required to resign their mandate.

The members of the Management Board are responsible for managing Henkel's business operations in their entirety. To this end, the individual Management Board members are assigned – in accordance with a business distribution plan – areas of competence for which they bear lead responsibility. The members of the Management Board cooperate closely as colleagues, informing one another of all major occurrences within their areas of competence and conferring on all actions that may affect several such areas. Further details relating to cooperation and the division of operational responsibilities are regulated by rules of procedure issued by the Supervisory Board of Henkel Management AG. The Management Board reaches its decisions by a simple majority of the votes cast. In the event of a tie, the Chairperson has the casting vote.

Some members of the Supervisory Board and of the Shareholders' Committee are or were in past years holders of senior managerial positions in other companies. Inasmuch as Henkel pursues business activities with these companies, the same arm's length principles apply as those applicable to transactions with and between unrelated third parties.

For more details on the composition of the Management Board, the Supervisory Board and the Shareholders' Committee, the committees established within the Supervisory Board and the subcommittees of the Shareholders' Committee, please refer to AR pages 137 to 141. Details of compensation can be found in the remuneration report on AR pages 31 to 39.

For further details with respect to corporate governance in general, please go to our website at www.henkel.com/ir

Principles of corporate stewardship/Compliance

For our company to be successful, it is essential that we share a common approach to entrepreneurship. The company's vision provides its management and employees worldwide with both direction and a primary objective. It reaffirms our commitment to be the best and meet the highest standards in everything that we do.

Our vision:

- A global leader in brands and technologies.

Our vision provides the foundation for building a company with a common ethic: "One Henkel." The company's values guide its employees in all the day-to-day decisions they make, providing a compass for their conduct and actions.

Our values:

- We put our customers at the center of what we do.
- We value, challenge and reward our people.
- We drive excellent sustainable financial performance.
- We are committed to leadership in sustainability.
- We build our future on our family business foundation.

Henkel is committed to ensuring that all business transactions are conducted in an ethically irreproachable, legal fashion. Consequently, Henkel expects all its employees to respect not only the company's internal rules and all relevant laws, but also to avoid conflicts of interest, to protect Henkel's assets and to respect the customs, traditions and social values of the countries and cultural environments in which the company does business. The Management Board has therefore issued a series of Group-wide codes, standards and guidelines with binding precepts of professional conduct and behavior. These regulatory instruments are regularly reviewed and amended as appropriate, evolving in step with the changing legal and commercial conditions that affect Henkel as a globally active corporation. Our Code of Conduct supports our employees in dealing with ethical and legal issues; our Code of Teamwork and Leadership defines the approach, actions and attitudes to be adopted by management and employees in their interpersonal dealings; and the Code of Corporate Sustainability describes the principles that underlie our approach to sustainable, socially responsible development. These codes also enable Henkel to meet the commitments derived from the Global Compact of the United Nations.

Ensuring compliance in the sense of obeying laws and adhering to regulations is an integral component of our business processes. Henkel has established a Group-wide compliance organization with locally and regionally responsible compliance officers led by a globally responsible Chief Compliance Officer. The CCO manages and controls compliance-related activities undertaken at the corporate level, coordinates training courses, oversees fulfillment of both internal and external regulations, and supports the corporation in the further development and implementation of the associated standards. He is assisted in this capacity by Internal Audit, and also by a Compliance Committee of interdisciplinary composition.

The remit of the local and regional compliance officers includes organizing and overseeing the training activities and implementation measures tailored to the specific requirements of their locations. They report through the locally or regionally responsible presidents to the Chief Compliance Officer. The CCO and the head of Internal Audit report regularly to the Management Board and also the Audit Committee of the Supervisory Board on identified compliance violations.

The issue of compliance is also a permanent item in the target agreements signed by all managerial staff in the Group. Because of their seniority, it is particularly incumbent on them to set the right example for their subordinates, to effectively communicate the compliance rules and to ensure that these are obeyed through the implementation of suitable organizational measures.

The procedures to be adopted in the event of complaints or suspicion of malpractice also constitute an important element of the compliance regime. In addition to our internal reporting system and complaint registration channels, employees may also, for the purpose of reporting serious violations to the CCO, anonymously use a Compliance Hotline operated by an external service-provider. The CCO is mandated to initiate the necessary follow-up procedures.

Our corporate compliance activities are focused on the fields of safety, health and the environment, antitrust law and the fight against corruption. A further compliance-relevant area relates to capital market law. Supplementing the legal provisions, internal codes of conduct have been put in place to regulate the treatment of information that has the potential to affect share prices. The company has an Ad-hoc Committee comprising representatives of various departments. In order to ensure that all insider information is handled as required by law, this reviews developments and events for their possible effect on share prices, determining the need to issue reports to the capital markets on an ad-hoc basis. There are also rules that go beyond the legal requirements, governing the behavior of the members of the Board of Management, the Supervisory Board and the Shareholders' Committee, and also employees of the corporation who, due to their function or involvement in projects, have access to insider information. An insider register is kept, listing the people involved.

For further information relating to the principles guiding our corporate stewardship, please go to our website www.henkel.com/ir

Application of the German Corporate Governance Code

Taking into account the special features arising from our legal form and Articles of Association, Henkel AG & Co. KGaA complies with the recommendations ("shall" provisions) of the German Corporate Governance Code, with two exceptions: (1) The executive contracts concluded in 2008 with respect to those members of the Management Board appointed in conjunction with the establishment of Henkel Management AG as the Personally Liable Partner in 2008, contain no severance pay cap in the event of premature termination of their tenure as executives of the corporation without good cause or reason, i.e. severance payouts may exceed the formal maximum of two years' emoluments. Newly concluded post-2008 executive contracts and executive contracts extended for a period of more than two years do contain a severance pay cap. (2) In order to protect the legitimate interests and private spheres of the members of the corporate management bodies who are also members of the Henkel family, their individual shareholdings are not disclosed unless required by law. The Code requires disclosure of shareholdings in excess of 1 percent.

Henkel also complies with all the suggestions ("may/should" provisions) of the Code in keeping with our legal form and the special statutory features anchored in our Articles of Association. The corresponding declarations of compliance together with the reasons for deviations from recommendations can be found on our website at www.henkel.com/ir

In accordance with the Declaration on the German Corporate Governance Code, the following details have been disclosed in relation to notifiable shareholdings: The aggregate holdings of the members of the Supervisory Board and of the members of the Shareholders' Committee exceed in each case 1 percent of the shares issued by the company. The members of the Management Board together hold less than 1 percent of the shares issued by the company.

In fiscal 2010, a total of 19 transactions were notified in compliance with Section 15a Securities Trading Act [WpHG], "Directors' Dealings." One member of the Shareholders' Committee sold a total of 360,000 ordinary shares and entered into 16 put or call option transactions involving 1,430,000 preferred shares and 311,000 ordinary shares. For further details in this regard, please go to our website www.henkel.com/ir

Objectives regarding Supervisory Board composition

The recently amended German Corporate Governance Code has newly introduced recommendations that the Supervisory Board shall specify concrete objectives regarding its composition. At its meeting on December 14, 2010, the Supervisory Board therefore reviewed the prevailing criteria for approving candidates for election and, giving due consideration to the specifics of Henkel and taking into account the international activities of the company, passed a resolution detailing the following objectives for its composition. These objectives, to be reviewed at regular intervals, will be taken into account by the Supervisory Board in proposing election candidates to the Annual General Meeting with respect to all re-electable and replacement Supervisory Board positions.

- The members of the Supervisory Board should, generally speaking, offer the knowledge, skills and relevant experience necessary in order to properly perform their duties. Particularly required are experience and expertise in one or several of the fields of corporate management, book-keeping and accountancy, financial control/risk management, corporate governance/compliance, research and development, production/technology, and marketing/sales/distribution, as is knowledge of the industrial or consumer business in the primary markets in which Henkel is active. Members of the Supervisory Board should also have sufficient time at their disposal in order to carry out their mandate.
- The international activities of the corporation should be appropriately reflected in the composition of the Supervisory Board. Consequently, efforts will be made to retain those current members with an international background. The mix of candidates proposed for election should also contain an appropriate number of women. The current share of 25 percent is generally regarded as adequate. Efforts will therefore be made to maintain or, if possible, increase this proportion for upcoming new and ad-hoc replacement elections.
- In addition, the Supervisory Board should have a sufficient number of independent members. In future, therefore, the Supervisory Board is to contain not more than two former members of the Management Board, no persons who perform board or committee functions or act as consultants for major competitors, and no persons whose relationship with the corporation or members of the Management Board could give rise to conflicts of interest. Further, no persons shall be proposed for election who, at the time of the election, have already reached their 70th birthday.

II. Remuneration report

This remuneration report provides an outline of the compensation system for the Management Board, Henkel Management AG as the Personally Liable Partner, the Supervisory Board and the Shareholders' Committee of Henkel AG & Co. KGaA, and the Supervisory Board of Henkel Management AG; it also explains the level and structure of the remuneration paid.

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

1. Remuneration of the Management Board

In compliance with the object of the Act on the Appropriateness of Management Board Remuneration [VorstAG] to structure the remuneration of the Management Board in keeping with the need for a sustainable form of corporate development aligned to the long term, in 2010 the Supervisory Board of Henkel Management AG modified the compensation system and further reinforced its already pronounced long-term orientation.

The compensation system described in the following was presented to the 2010 AGM of Henkel AG & Co. KGaA and approved by it with a large majority. Effective fiscal 2010, it is to be applied uniformly to the remuneration of all Management Board members, irrespective of the expiry dates of their executive contracts and any differing legacy arrangements.

Regulation, structure and amounts

The compensation for members of the Management Board of Henkel Management AG is regulated by the Supervisory Board of Henkel Management AG in consultation with the Human Resources Subcommittee of the Shareholders' Committee.

25 %
Supervisory Board membership female.

The Supervisory Board of Henkel Management AG is comprised of three members of the Shareholders' Committee.

The structure and amounts of the emoluments accruing to the Management Board are aligned to the size and international activities of the corporation, its economic and financial position, its performance and future prospects, the normal levels of remuneration encountered in comparable companies and also the general compensation structure within the Henkel organization. The compensation package is further determined on the basis of the functions, responsibilities and performance of the individual executives and the performance of the Management Board as a whole. The variable annual remuneration components have been devised such that they take into account both positive and negative developments. The overall remuneration mix is designed to be internationally competitive while also providing an incentive for ongoing business development and a sustainable increase in shareholder value within a dynamic operating environment. The Supervisory Board of Henkel Management AG regularly reviews the compensation arrangements applied to the Management Board.

The remuneration of the members of the Management Board is based on a so-called target compensation amount (total remunerations excluding other ancillary emoluments and pension entitlements) which accrues to a member of the Management Board in the event of 100 percent achievement of the underlying performance targets, this "at-target" amount coming in at around 2.1 million euros in total per financial year. Of this target compensation, around 30 percent is in fixed salary, some 35 percent is performance-related over the short term and about 35 percent is performance-related over the long term.

Compensation structure

Fixed salary: 30 percent	Short-term components: 35 percent	Long-term components: 35 percent
	35 percentage points in variable annual remuneration (cash component)	25 percentage points in variable annual remuneration (own investment in Henkel preferred shares)
		10 percentage points in long-term incentive

This target compensation amount is supplemented by other emoluments and pension benefits. The components in detail:

Fixed salary

The annual non-performance-related fixed salary accounts for around 30 percent of the target compensation amount. It is paid on a monthly basis. The amount paid reflects both the function and responsibilities of the position and relevant market conditions.

Variable annual remuneration

Overall, the variable annual remuneration accounts for around 60 percent of the target compensation amount. The variable annual remuneration is made up of annual performance-related components which account for around 35 percent of the target compensation amount, and a long-term variable incentive which accounts for around 25 percent of the target compensation amount and takes the form of an investment by the recipient (own investment) in Henkel preferred shares with a minimum vesting period of three years.

Determination of variable annual remuneration

The performance criteria governing the variable annual remuneration are primarily return on capital employed (ROCE) and earnings per preferred share (EPS) in the relevant fiscal year, adjusted in each case by exceptional items. The further factors used in establishing the variable annual remuneration payable to the Management Board members are: the Group results and the results of the relevant business sector or corporate function, and the quality of management demonstrated in those functions and the individual contribution made by the Management Board member concerned.

The target amount is adjusted on the basis of a performance factor related to the degree of target achievement. In determining the variable annual remuneration, the Supervisory Board of Henkel Management AG also takes into due account the apparent sustainability of the economic success and the performance levels of the Management Board members.

Variable annual remuneration is also subject to an overall cap, with the result that the amount paid may only range between 0 percent and 250 percent of the target amount.

Short-term and long-term components of the variable annual remuneration

The variable annual remuneration is paid annually in arrears once the corporation's annual financial statements have been approved by the Annual General Meeting. Of the variable annual remuneration, around 60 percent is paid in cash, which in turn corresponds to a proportion of the target compensation of around 35 percent. For the remaining 40 percent – corresponding to 25 percent of the target compensation – the members of the Management Board acquire Henkel preferred shares (own investment) at the price prevailing at the time of acquisition. These shares are placed in a blocked custody account with a three-year drawing restriction. This own investment ensures that the members of the Management Board participate through a portion of their compensation in the long-term performance of the corporation.

Therefore, around 35 percent of the target compensation amount is short-term performance-related and – due to the own investment portion and the long-term incentive described below – a further 35 percent is aligned to components of a long-term performance-related nature.

Long-term incentive (LTI)

The long-term incentive, which accounts for 10 percent of the target compensation amount, is a variable cash payment based on the long-term performance of the corporation, the amount payable being dependent on the future increase registered in earnings per preferred share (EPS) over three consecutive years (the performance period). Together with the recipient's own investment from the variable annual remuneration, performance-related components aligned to the long term make up 35 percent of the target compensation amount.

On completion of the performance period, the degree of target achievement is ascertained by the Supervisory Board of Henkel Management AG on the basis of the increase in EPS achieved. The amounts included in the calculation of the increase, are in each case, the earnings per preferred share adjusted for exceptional items, as disclosed in the consolidated financial statements of the relevant financial years.

Depending on the level of target achievement ascertained by the Supervisory Board of Henkel Management AG, the target amount is adjusted by a performance multiplier. The long-term incentive is also subject to an overall cap, with the result that the amount paid may only range between 0 percent and 250 percent of the target amount.

Pension benefits

The retirement pension for members joining the Management Board of the former Henkel KGaA before January 1, 2005 amounts to a certain percentage of the last paid fixed salary (defined benefit). For these Management Board members, the amount payable is set at 60 percent of the final fixed salary in the event of retirement on attainment of their 62nd birthday. The actual percentage individually determined for each executive is made up of two components: (1) the so-called base percentage rate derived from the vested pension entitlement earned prior to entry into the former or latter Management Board, and (2) an incremental annual increase of the base percentage rate for each year of the executive's membership of the Management Board.

Effective January 1, 2005, we changed the pension entitlement for new members of the Management Board to a defined contribution scheme. Once a covered event occurs, the beneficiaries receive a superannuation lump-sum payment combined with a continuing basic annuity. The superannuation lump-sum payment comprises the total of annual contributions calculated on the basis of a certain percentage of the target compensation amount, this percentage being the same for all members of the Management Board. The annual contributions depend to a certain degree on developments in the annual total cash compensation paid in the financial year in question. Any vested pension rights earned within the corporation prior to the executive's joining the Management Board are taken into account as start-up units. The defined contribution pension system ensures appropriate retirement and welfare benefits while also incorporating a performance-related element.

In the event that a member of the Management Board (executive) receives no pension benefits prior to their death, the superannuation lump sum accumulated up to time of death is paid out to the surviving spouse or surviving children. In addition, the executive's surviving spouse receives pension payments amounting to 60 percent and each dependant child benefit payments amounting to 15 percent – up to a maximum of 100 percent for all beneficiaries – of the executive's pension entitlement. The surviving child's benefit is generally paid until the child's 18th birthday or, if longer, until completion of their professional training, but only up to their 27th birthday.

Other emoluments

The members of the Management Board also receive other emoluments in the form of benefits arising out of standard commercial insurance policies and the provision of a company car.

Other regulatory provisions

In the event of retirement being taken by members of the Management Board whose contracts of employment were concluded before 2009, they are entitled to continued payment of their fixed salary for a further six months, but not beyond the month of their 65th birthday.

In the event of a member's position on the Management Board being terminated without good cause or reason, the executive contract provides for a severance settlement amounting to the remuneration for the remaining contractual term in the form of a discounted lump-sum payment. Since the 2008 AGM, however, severance payments have been limited to two years' compensation (severance payment cap) with respect to newly concluded contracts of employment or contract extensions of more than two years. In addition, the executive contracts include a post-contractual non-competition Section with a term of up to two years. The associated discretionary payment can be up to 50 percent of annual compensation after allowing for any severance payments. No entitlements exist in the event of premature termination of executive duties resulting from a change in control.

The corporation maintains on behalf of members of the corporate management bodies and employees of Henkel a third-party group insurance policy (D&O insurance) protecting against consequential loss, which policy also covers members of the Management Board. For members of the Management Board there is an own-risk deductible amounting to 10 percent per loss event up to a maximum of one-and-a-half times their fixed salary for loss events occurring within a financial year.

Remuneration for 2010

The total compensation paid to members of the Management Board for the performance of their duties for and on behalf of Henkel AG & Co. KGaA and its subsidiaries during the year under review, including the cumulative savings reserve for Special Incentive 2012 and compensation payments, amounted to 18,297k euros (previous year: 10,357k euros). Of the total cash emoluments of 13,866k euros (previous year: 9,651k euros) paid in respect of 2010, 3,531k euros was in fixed salary (previous year: 3,531k euros), 10,203k euros for the STI (previous year: 5,953k euros) and 132k euros in other emoluments (previous year: 167k euros). Also included in the total compensation is the long-term incentive granted for 2010 which – depending on the achievement of the performance targets – will only become payable in 2013. It is a legal requirement that a value be disclosed in the year of grant. This value is determined on the basis of an "at target" calculation, i.e. assuming the achievement of an increase in EPS over the performance period of 30 percent, giving an imputed amount of 963k euros (previous year: 706k euros).

The remuneration of the individual members of the Management Board for the year under review is indicated in the table below together with a breakdown according to the individual components referred to above.

Dr. Friedrich Stara, who is due to retire from the company at the end of February 2011, is bound according to his contract of employment by a post-

Remuneration of the Management Board[1)]

in k euros		Cash components					
		Fixed salary	Variable annual compensation	Other emoluments	Total cash emoluments	Value of long-term incentive[2)]	Total remuneration
Kasper Rorsted[3)]	**2010**	963.0	2,834.4	42.1	**3,839.5**	321.0	**4,160.5**
	2009	963.0	1,658.1	25.9	**2,647.0**	189.7	**2,836.7**
Thomas Geitner[4)]	**2010**	642.0	1,819.6	19.1	**2,480.7**	–	**2,480.7**
(until Dec. 31, 2010)	2009	642.0	1,068.8	25.2	**1,736.0**	–	**1,736.0**
Dr. Friedrich Stara[5)]	**2010**	642.0	1,849.6	21.3	**2,512.9**	214.0	**2,726.9**
	2009	642.0	1,068.8	18.9	**1,729.7**	137.0	**1,866.7**
Dr. Lothar Steinebach	**2010**	642.0	1,849.6	25.8	**2,517.4**	214.0	**2,731.4**
	2009	642.0	1,088.8	23.4	**1,754.2**	189.7	**1,943.9**
Hans Van Bylen[3)]	**2010**	642.0	1,849.6	23.9	**2,515.5**	214.0	**2,729.5**
	2009	642.0	1,068.8	73.1	**1,783.9**	189.7	**1,973.6**
Total	**2010**	**3,531.0**	**10,202.8**	**132.2**	**13,866.0**	**963.0**	**14,829.0**
Total	2009	3,531.0	5,953.3	166.5	**9,650.8**	706.1	**10,356.9**

1) Bruno Piacenza and Jan-Dirk Auris were appointed members of the Management Board effective January 1, 2011; they received no payments in the 2010 financial year with respect to their future executive duties.
2) 2010 LTI payout in 2013; these figures will only be attained in the event of EPS increasing by 30 percent in the performance period.
3) In addition to the emoluments indicated above and those for services rendered during the financial year, the following one-time payments were made as partial compensation for the interventions in the remuneration structure arising from the changes introduced to the compensation system: Kasper Rorsted 380k euros, Hans Van Bylen 241k euros.
4) 2009 and 2010 LTI for Thomas Geitner included in severance payment.
5) 2009 LTI for Dr. Friedrich Stara accounted for up to regulation retirement at the end of February 2011.

Remuneration of the Management Board

in k euros

		Fixed salary	Short-term component of the variable annual compensation	Long-term compensation components: Long-term component of the variable annual compensation	Long-term compensation components: Long-term incentive (LTI)	Other emoluments	Total remuneration
Total	**2010**	**3,531.0**	**6,121.6**	**4,081.2**	**963.0**	**132.2**	**14,829.0**
		23.8%	**41.2%**	**27.6%**	**6.5%**	**0.9%**	**100.0%**
Total	2009	3,531.0	5,953.3	–	706.1	166.5	**10,356.9**
		34.1%	57.5%	–	6.8%	1.6%	**100.0%**

contractual non-competition Section for a period of 16 months starting March 1, 2011. The compensation payable over this period will amount to 104k euros per month gross. Pension payments will not start until after expiry of the non-competition period.

Thomas Geitner resigned from the Management Board effective December 31, 2010. Pursuant to the termination of his employment relationship, Thomas Geitner received a severance payment roughly equivalent to a year's compensation, taking into account the contributions to his superannuation lump-sum component. All his claims arising from LTI programs were also settled, resulting in a severance amount of 4.9 million euros.

No further members of the Management Board were granted by the company non-standard benefits in the event of premature termination of their tenure, nor were any such entitlements or arrangements modified. No member of the Management Board was pledged payments from third parties in respect of their duties as executives of the company, nor were any such payments granted in the year under review.

Special Incentive 2012

In order to underpin Henkel's strategic priorities and the ambitious 2012 financial targets announced in this regard, the Supervisory Board of Henkel Management AG has, in consultation with and on the recommendation of the Personnel Subcommittee of the Shareholders' Committee, resolved that an additional cash bonus should be payable to the members of the Management Board on the primary condition that the adjusted return on sales for 2012 is at least 14 percent (Special Incentive 2012). Achievement of the governing thresholds (indicated below) shall be based on the approved and endorsed consolidated financial statements as duly audited and provided with an unqualified opinion, with relevant margins having been adjusted for exceptional items. The volume of Special Incentive 2012 is 50 percent of the ensuing variable annual remuneration for 2012.

The special incentive will be paid as follows: Subject to achievement of an adjusted return on sales of at least 14 percent in 2012, 60 percent of the special incentive will be paid out following the 2013 AGM. The remaining 40 percent will be paid out following the 2014 AGM provided that, in 2013, the adjusted return on sales achieved amounts to at least 13.8 percent. This staggered arrangement adequately satisfies the criterion of performance-improvement sustainability.

The value of the special incentive will be recognized in the accounts for the award period. Because this represents a conditional claim to deferred payment, a number of savings reserves have been formed on the basis of a value for Special Incentive 2012 imputed from the corporation's business plan, which reserves will then be amortized in the subsequent years. The savings reserves formed for the entitled members of the Management Board have been calculated on the basis of current estimates for the corporation's performance in 2011 and 2012 as indicated in the following table.

Special Incentive 2012

in k euros	Savings reserve in 2010
Kasper Rorsted	1,098
Dr. Friedrich Stara[1]	285
Dr. Lothar Steinebach	732
Hans Van Bylen	732
Total	**2,847**

[1] Figure accounts for resignation from Management Board as of February 28, 2011.

Pension benefits

The pension benefits accruing to the members of the former and latter Management Boards as of the balance sheet date and also the contributions to the pension scheme made in 2010 are shown in the tables overleaf:

Defined benefit

in euros	Retirement pension p.a. on onset of pension as of balance sheet date	Change in pension provisions for 2010
Dr. Lothar Steinebach	391,620	232,363

Defined contribution

in euros	Superannuation lump sum		Basic annuity	
	Total lump sum	Addition to superannuation lump sum 2010	Total basic annuity (p.a.)	Addition to basic annuity for 2010
Kasper Rorsted	1,946,655.00	460,462.50	1,504.34	230.69
Dr. Friedrich Stara	1,474,920.00	296,595.00	744.88	120.53
Hans Van Bylen	1,472,264.10	296,595.00	1,358.85	219.31
Thomas Geitner	657,637.50	296,595.00	511.48	162.14

A total of 78,759k euros (previous year: 78,612k euros) has been provided for pension obligations to former members of the former and latter Management Boards and the former directors of the legal predecessor of the company, and their surviving dependants. Amounts paid to such recipients during the year under review totaled 6,430k euros (previous year: 6,311k euros).

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

For assumption of the liability and management of the businesses of the corporation, Henkel Management AG in its function as Personally Liable Partner shall receive an annual payment of 50,000 euros (= 5 percent of its capital stock) plus any value-added tax (VAT) due, said fee being payable irrespective of any profit or loss made.

Henkel Management AG may also claim reimbursement from the corporation of all expenses incurred in connection with the management of the latter's businesses including the emoluments paid to its management bodies.

3. Remuneration of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA

Regulation, structure and amounts

The remuneration for the Supervisory Board and the Shareholders' Committee has been approved in General Meeting; the corresponding provisions are contained in Articles 17 and 33 of the Articles of Association. The structure and amount of the remunerations are commensurate with the size of the corporation, its economic success and the functions performed by the Supervisory Board and the Shareholders' Committee respectively.

The remuneration package comprises three components: a fixed fee, a variable dividend-related bonus and an annual, variable, performance-related, long-term incentive (LTI) based on the company's performance. The components in detail:

Fixed fee

Each member of the Supervisory Board and of the Shareholders' Committee receives a fixed fee of 20,000 euros and 50,000 euros per year respectively. The higher fixed fee in the latter case is due to the fact that, as required by the Articles of Association, the Shareholders' Committee is involved in business management activities.

Dividend bonus

Each member of the Supervisory Board and of the Shareholders' Committee further receives an annual bonus of 2,400 euros for every full 0.02 euros by which the preferred dividend paid out for the prior year exceeds 0.25 euros.

Long-term incentive (LTI)

As a long-term incentive, each member of the Supervisory Board and of the Shareholders' Committee receives an additional cash payment each year, the amount of which depends on the increase in earnings per preferred share (EPS) over a three-year reference period. The EPS of the financial year preceding the year of payment is compared to the EPS of the second financial year following the year of payment. If the increase is at least 15 percent, an amount of 600 euros is paid for each full percentage point of the total achieved increase. If the increase reaches a minimum of 21 percent, the amount paid per percentage point is 700 euros, and if the increase is a minimum of 30 percent, the amount paid per percentage point is 800 euros. The calculation is based on the approved and endorsed consolidated financial statements of the respective financial years as duly audited and provided with an unqualified opinion, with EPS having been adjusted for exceptional items.

The total of the dividend bonus and the long-term incentive is, however, limited to 50,000 euros (cap).

Remuneration for chairpersons/vice-chairpersons/(sub)committee members

The Chairperson of the Supervisory Board and the Chairperson of the Shareholders' Committee each receives double the amount, and the Vice-Chairperson in each case one-and-a-half times the amount accruing to an ordinary member.

Members of the Shareholders' Committee who are also members of one or more subcommittees of the Shareholders' Committee each additionally receive remuneration equivalent to the initial amount; if they are the Chairperson of one or more subcommittees, they additionally receive double.

Members of the Supervisory Board who are also members of one or more committees shall each additionally receive a fee of 50 percent of the cash amount accruing to a member of the Supervisory Board (fixed fee plus dividend bonus); if they are the Chairperson of one or more committees, they receive an additional fee of 100 percent of this amount. Activity in the Nominations Committee is not remunerated separately.

Other regulatory provisions

The members of the Supervisory Board or a committee receive an attendance fee amounting to 500 euros for each meeting in which they participate. If several meetings take place on one day, the attendance fee shall only be paid once. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses arising from the pursuit of their mandates. The members of the Supervisory Board are also reimbursed the value-added tax (VAT) payable on their total remunerations and reimbursed expenses.

The corporation maintains on behalf of members of the corporate management bodies and employees of Henkel a third-party group insurance policy (D&O insurance) protecting against consequential loss, which policy also covers members of the Supervisory Board and of the Shareholders' Committee. For members of the Supervisory Board and Shareholders' Committee there is an own-risk deductible amounting to 10 percent per loss event up to a maximum of one-and-a-half times their fixed annual fee for loss events occurring within a financial year.

Remuneration for 2010

Total remuneration paid to the members of the Supervisory Board for the year under review (fixed fee, dividend bonus, attendance fee, components payable for committee activity and long-term incentive for 2010) amounted to 1,516k euros plus VAT (previous year: 1,425k euros plus VAT). Of the total cash emoluments paid for 2010 (fixed fees, dividend bonus, components payable for committee activity and attendance fees) amounting to 1,516k euros plus VAT of 247k euros (previous year: 1,168k euros plus VAT of 198k euros), 350k euros was in fixed fees, 875k euros in dividend bonus, 37k euros in attendance fees and 254k euros in components payable for committee activity (including relevant additional attendance fees).

Total remuneration paid to the members of the Shareholders' Committee for the year under review (fixed fee, dividend bonus, attendance fee, remuneration payable for subcommittee activity and long-term incentive for 2010) amounted to 2,209k euros (previous year: 2,345k euros) plus VAT. Of the total cash emoluments paid for 2010 (fixed fee and dividend bonus, including the components payable for subcommittee activity) amounting to 2,209k euros (previous year: 1,994k euros), 540k euros was in fixed fee, 540k euros in dividend bonus and 1,129k euros in components payable for subcommittee activity (excluding the LTI amount due).

In accordance with the proposal put forward by the Management Board, the dividend bonus in each case was based on a dividend of 0.72 euros per preferred share.

Pursuant to Article 17 (3) and Article 33 (3) of the Articles of Association, the above dividend would yield a dividend bonus of 55.2k euros per member. However, as according to Article 17 (5) and Article 33 (5) of the Articles of Association, the amount of dividend bonus and LTI payable to a simple member cannot exceed 50k euros (cap) in a financial year, the dividend bonus for the year under review was capped at 50k euros and there was no LTI payment for 2010.

The remuneration of the individual members of the Supervisory Board and of the Shareholders' Committee, broken down according to the above-mentioned components, are presented in the tables on the following pages.

Remuneration of the Supervisory Board

in euros

		Cash components						
		Fixed fee	Dividend bonus	Attendance fee	Fee for committee activity[1]	Total cash emoluments	Value of long-term incentive[2]	Total remuneration[3]
Dr. Simone Bagel-Trah[4],	**2010**	40,000	100,000	2,500	36,500	**179,000**	–	**179,000**
Chair since September 23, 2009	2009	25,480	42,806	2,000	7,842	**78,128**	18,727	**96,855**
Dipl.-Ing. Albrecht Woeste[4], (until September 22, 2009),	**2010**	–	–	–	–	**–**	–	**–**
Chair	2009	29,041	48,789	1,500	20,958	**100,288**	21,345	**121,633**
Winfried Zander[4],	**2010**	30,000	75,000	2,500	36,500	**144,000**	–	**144,000**
Vice-chair	2009	30,000	50,400	2,000	28,800	**111,200**	22,050	**133,250**
Dr. Friderike Bagel[4]	**2010**	–	–	–	–	**–**	–	**–**
(until April 20, 2009)	2009	5,973	10,034	500	8,503	**25,010**	4,390	**29,400**
Jutta Bernicke	**2010**	20,000	50,000	2,500	–	**72,500**	–	**72,500**
	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Fritz Franke	**2010**	–	–	–	–	**–**	–	**–**
(until December 31, 2009)	2009	20,000	33,600	1,500	–	**55,100**	14,700	**69,800**
Johann-Christoph Frey	**2010**	20,000	50,000	2,000	–	**72,000**	–	**72,000**
(since September 23, 2009)	2009	5,479	9,205	500	–	**15,184**	4,028	**19,212**
Birgit Helten-Kindlein[4]	**2010**	20,000	50,000	2,500	36,500	**109,000**	–	**109,000**
	2009	20,000	33,600	2,000	28,800	**84,400**	14,700	**99,100**
Bernd Hinz	**2010**	11,616	29,041	1,500	–	**42,157**	–	**42,157**
(until July 31, 2010)	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Prof. Dr. Michael Kaschke	**2010**	20,000	50,000	2,000	–	**72,000**	–	**72,000**
	2009	20,000	33,600	1,500	–	**55,100**	14,700	**69,800**
Thomas Manchot	**2010**	20,000	50,000	2,000	–	**72,000**	–	**72,000**
	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Mayc Nienhaus	**2010**	20,000	50,000	2,500	–	**72,500**	–	**72,500**
(since January 1, 2010)	2009	–	–	–	–	**–**	–	**–**
Thierry Paternot	**2010**	20,000	50,000	2,000	–	**72,000**	–	**72,000**
	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Andrea Pichottka	**2010**	20,000	50,000	2,500	–	**72,500**	–	**72,500**
	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Prof. Dr. Theo Siegert[4]	**2010**	20,000	50,000	2,500	36,500	**109,000**	–	**109,000**
(since April 20, 2009)	2009	14,027	23,566	1,500	20,297	**59,390**	10,310	**69,700**
Edgar Topsch	**2010**	8,384	20,959	1,000	–	**30,343**	–	**30,343**
(since August 1, 2010)	2009	–	–	–	–	**–**	–	**–**
Dr. Kaspar von Braun	**2010**	14,082	35,205	1,000	–	**50,287**	–	**50,287**
(since April 19, 2010)	2009	–	–	–	–	**–**	–	**–**
Konstantin von Unger	**2010**	5,918	14,795	1,000	–	**21,713**	–	**21,713**
(until April 19, 2010)	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Michael Vassiliadis[4]	**2010**	20,000	50,000	2,500	36,500	**109,000**	–	**109,000**
	2009	20,000	33,600	2,000	28,300	**83,900**	14,700	**98,600**
Dr. h.c. Bernhard Walter[4]	**2010**	20,000	50,000	2,000	71,500	**143,500**	–	**143,500**
	2009	20,000	33,600	1,500	55,600	**110,700**	14,700	**125,400**
Ulf Wentzien	**2010**	20,000	50,000	2,500	–	**72,500**	–	**72,500**
	2009	20,000	33,600	2,000	–	**55,600**	14,700	**70,300**
Total	**2010**	**350,000**	**875,000**	**37,000**	**254,000**	**1,516,000**	**–**	**1,516,000**
	2009	350,000	588,000	30,500	199,100	**1,167,600**	257,250	**1,424,850**

[1] Fee for service on the Audit Committee; there is no separate fee payable for service on the Nominations Committee.
[2] The dividend bonus and LTI for a reference year is limited to 50,000 euros (cap) for a simple member. Therefore, the dividend bonus of 55,200 euros that mathematically results from a dividend of 0.72 euros per preferred share has been reduced to 50,000 euros. With the cap coming into play for reference year 2010, there is no LTI payable, hence the absence of an LTI figure.
[3] Figures do not include VAT.
[4] Member of the Audit Committee chaired by Dr. h.c. Bernhard Walter.

Remuneration of the Shareholders' Committee

in euros

		Cash components					
		Fixed fee	Dividend bonus	Fee for sub-committee activity[1]	Total cash emoluments	Value of long-term incentive[2]	Total remuneration
Dr. Simone Bagel-Trah, Chair, Vice-chair until September 18, 2009 (Chair HR Subcommittee)	**2010**	100,000	100,000	200,000	**400,000**	–	**400,000**
	2009	82,123	55,187	167,200	**304,510**	53,544	**358,054**
Dipl.-Ing. Albrecht Woeste (until September 18, 2009), Chair (Member HR Subcommittee)	**2010**	–	–	–	**–**	–	**–**
	2009	71,507	48,052	59,779	**179,338**	31,535	**210,873**
Dr. h.c. Christoph Henkel, Vice-chair (Chair Finance Subcommittee)	**2010**	75,000	75,000	200,000	**350,000**	–	**350,000**
	2009	75,000	50,400	167,200	**292,600**	51,450	**344,050**
Dr. Paul Achleitner (Member Finance Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Boris Canessa (since September 19, 2009) (Member HR Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	14,247	9,574	23,821	**47,642**	8,377	**56,019**
Stefan Hamelmann (Vice-chair Finance Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Dr. h.c. Ulrich Hartmann (until September 19, 2010) (Member Finance Subcommittee)	**2010**	14,795	14,795	29,590	**59,180**	–	**59,180**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Prof. Dr. Ulrich Lehner (Member Finance Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Konstantin von Unger (Vice-chair HR Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Karel Vuursteen (Member HR Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Werner Wenning (Member HR Subcommittee)	**2010**	50,000	50,000	100,000	**200,000**	–	**200,000**
	2009	50,000	33,600	83,600	**167,200**	29,400	**196,600**
Total	**2010**	**539,795**	**539,795**	**1,129,590**	**2,209,180**	**–**	**2,209,180**
	2009	592,877	398,413	1,003,200	**1,994,490**	350,706	**2,345,196**

[1] Proportional fixed fee and dividend bonus.
[2] The dividend bonus and LTI for a reference year is limited to 50,000 euros (cap) for a simple member. Therefore, the dividend bonus of 55,200 euros that mathematically results from a dividend of 0.72 euros per preferred share has been reduced to 50,000 euros.
With the cap coming into play for reference year 2010, there is no LTI payable, hence the absence of an LTI figure. Figures for 2009 include LTI payable for committee activities.

4. Remuneration of the Supervisory Board of Henkel Management AG

In accordance with Article 14 of the Articles of Association of Henkel Management AG, the members of the Supervisory Board of Henkel Management AG receive an annual fee of 10,000 euros, although members of this body who are also members of the Supervisory Board or Shareholders' Committee of Henkel AG & Co. KGaA do not receive such further compensation.

As the Supervisory Board of Henkel Management AG is comprised of members of the Shareholders' Committee, no fees were paid to members of that Supervisory Board in the year under review.

Operational activities

Overview

Henkel was founded in 1876. Consequently, the year under review marks the 134th in our corporate history. Today, Henkel employs some 48,000 people worldwide, and we occupy globally leading market positions in the consumer and industrial businesses.

Global operations

Countries in which Henkel operates.

Organization and business sectors

Henkel AG & Co. KGaA is operationally active as well as being the parent company of the Henkel Group. It is responsible for defining and pursuing Henkel's corporate objectives and also for the management, control and stewardship of our Group-wide activities, including risk management and the allocation of resources. Henkel AG & Co. KGaA performs its tasks within the legal scope afforded to it as part of the Henkel Group, with the affiliated companies otherwise operating as legally independent entities.

Operational management and control is the responsibility of the Management Board of Henkel Management AG in its function as sole Personally Liable Partner. The Management Board is supported by the Corporate functions.

41 %
of our sales generated in the emerging markets.

Henkel is organized into three business sectors:
- Laundry & Home Care
- Cosmetics/Toiletries
- Adhesive Technologies

Our product range in the Laundry & Home Care business sector comprises heavy-duty detergents, specialty detergents and cleaning products. The portfolio of the Cosmetics/Toiletries business sector encompasses hair cosmetics, products for body, skin and oral care, and products for the hair salon business. The Adhesive Technologies business sector offers decoration and renovation products, adhesive and correction products for home and office, building adhesives and industrial and structural adhesives, sealants and surface treatment products.

Our three business sectors are managed on the basis of globally operational strategic business units. These are supported by the functions of Henkel AG & Co. KGaA in order to ensure optimum utilization of corporate network synergies. Implementation of the strategies at a country and regional level is the responsibility of the affiliated national companies. The executive bodies of these companies manage their businesses in line with the relevant statutory regulations, supplemented by their own Articles of Association, internal procedural rules and the principles incorporated in our globally applicable management standards, codes and guidelines.

Strategy and financial targets for 2012

We are continuing to expand our three business sectors Laundry & Home Care, Cosmetics/Toiletries and Adhesive Technologies, each of which offers a strong and balanced portfolio of activities capable of significant growth in a positive market environment or ensuring relative stability in a downturn, as was clearly demonstrated in both 2009 and 2010. Already today, we enjoy leading positions in all three segments in the mature markets of Western Europe and North America, and we intend to further expand these going forward. However, in the growth regions too, we can point to more than 100 leading positions in the associated categories of our business sectors Laundry & Home Care and Cosmetics/Toiletries. Our Adhesive Technologies business sector leads the market in over 30 emerging economies. It is essential for us to maintain strong and expandable market positions in the countries in which we have a presence. Already today, we generate 41 percent of our total sales in growth regions. In 2004, the overall share of these emerging markets was just 26 percent.

With our three growth-generating business sectors and the leading positions we already occupy in both the mature markets and the growth regions, we have a strong basis for generating profitable growth in the future.

Strategic priorities and progress in fiscal 2010

In 2008, we set ourselves three strategic priorities:

Achieve our full business potential

For this, we have identified the following drivers:

1. Portfolio optimization

Within the Laundry & Home Care business sector, we aim to increase our profitability in the mass categories such as heavy-duty detergents and hand-dishwashing products, and drive growth in the profitable specialty categories such as household cleaners and fabric softeners. In the Cosmetics/Toiletries business sector, we intend to further enhance profitability by strengthening our innovation leadership and expanding the Schwarzkopf brand. Within the Adhesive Technologies business sector we want to improve our profitability in the automotive segment and consumer adhesives business, drive growth in specialty applications and utilize our economies of scale with innovations in the industrial adhesives segment.

In addition, we intend to achieve disproportionate expansion in the growth regions through increased capital expenditures, and to expand the share of sales accounted for by these markets to 45 percent by 2012, while also improving our margins. We also want to further increase our market shares in the mature markets.

2. Focus on our top brands

Our focus is on fewer but stronger brands and further expansion of our strong regional and global brands. Brand awareness is to be further enhanced through extensive marketing investment. Our three top brands Schwarzkopf, Loctite and Persil already account for around 23 percent of our sales. Our objective is to grow organically twice as fast with these and other top brands as Henkel overall, and therefore to significantly expand their share of total sales. At the same time, we are reducing the total number of our brands by selling off or discontinuing the smaller and less important brands.

3. Innovation and innovation rates

With innovation rates[1] of around 40 percent in the business sectors Laundry & Home Care and Cosmetics/Toiletries, and of around 24 percent at Adhesive Technologies, we count among the strongest innovators in our fields of competence. We are helped in this respect by the proximity we have to our consumers and customers, actively incorporating both audiences in our product development activities where appropriate. We have also made it our principle only to launch a new product onto the market if it has a positive effect on gross margin and makes a contribution to sustainable development in at least one of our five focal areas – see AR page 63.

4. Operational excellence

In our purchasing activities, our aim is to create benefits through the further development of effective strategies. These include concentrating on strategic suppliers and on procuring materials in low-cost emerging economies. Our objectives with regard to production and supply chain management include further reducing the number of manufacturing sites, particularly in the mature markets. This will enable us to reduce the complexity of our structures and better utilize available capacities. We will also be introducing improvements with respect to our administrative, selling and distribution expenses, by pooling our standardized processes in the areas of finance, purchasing and human resources within our shared service centers in Bratislava (Slovakia) and Manila (Philippines), and by outsourcing non-core activities such as IT support. We expect such measures to yield further cost savings.

Focus more on our customers

In order to place our customers right at the center of all we do, we have prioritized expanding our dialogue with them at the highest managerial level (top-to-top contacts), coupled with the further development of our partnership structures. Our aims are to establish a joint strategic approach to our markets, to expand services offering a measurable added value for our customers, and to effectively leverage our own competences in the form of, for example, our leadership in the field of sustain-

[1] Percentage share of sales accounted for by new products launched onto the market in the last three years (five years for Adhesive Technologies).

23 %
of sales achieved with our top brands Schwarzkopf, Loctite and Persil.

40 %
is the innovation rate that we generate in our Laundry & Home Care and Cosmetics/Toiletries business sectors.

24 %
is the innovation rate that we generate in our Adhesive Technologies business sector.

ability. The objective is to generate organic growth with our key accounts equivalent to 1.5 times the amount for Henkel as a whole.

Strengthen our global team

Our employees are our most important resource. With clear and unequivocal feedback, discernible rewards in recognition of individual performance, and tailored development plans, we ensure that our competent and motivated team can master the challenges with which they are confronted. We are keen to develop and promote our managers from within. At the same time, we are also aware of the need to bring in external talents, especially when their knowledge of their local markets is better than that of the established managerial staff within the company. Already today, there are people from more than 110 nations working for Henkel; and the proportion of female managers is 29 percent worldwide, with the trend clearly rising. The diversity of our global team gives us a competitive advantage, one that we intend to further extend.

People from more than
110 nations
work for Henkel.

Progress in fiscal 2010

We made further substantial progress in the pursuit of our three strategic priorities in fiscal 2010. The salient advancements were as follows:

Achieve our full business potential

- Record sales and profit levels in all three business sectors.
- Efficiency enhancement program “Global Excellence” and integration of the National Starch businesses implemented ahead of schedule.
- Further expansion of our two shared service centers in Bratislava (Slovakia) and Manila (Philippines), together with increased usage of these facilities in the fields of finance, purchasing and human resources.

Focus more on our customers

- Further expansion of customer contacts at the highest managerial level for the purpose of identifying joint projects.
- Expansion of our position as a leading partner to our customers in the field of sustainability.

Strengthen our global team

- Introduction of the new vision – “A global leader in brands and technologies” – and tighter focus on five values.
- Development and introduction of a new system of managerial staff appraisal.

Financial targets for 2012

In 2008, we set ourselves financial targets for 2012 which we intend to achieve through vigorous pursuit of our strategic priorities.

Financial targets for 2012

Annual organic sales growth (average):
3–5 percent

Adjusted[1] return on sales (EBIT):
14 percent

Annual growth in adjusted[1] earnings per preferred share (average):
>10 percent

Fiscal 2010 saw us more than make up for the decline in sales and profits that resulted from the financial and economic crisis of 2009. We generated strong organic sales growth of 7.0 percent and succeeded in increasing our adjusted[1] return on sales by 2.3 percentage points to 12.3 percent. Adjusted[1] earnings per preferred share came in at 2.82 euros, 47.6 percent above the level of 2009.

Following on from the successes of the year under review, we are very confident that we will achieve our 2012 financial targets. This applies particularly to average annual growth in adjusted earnings per preferred share, for which our target is more than 10 percent, and adjusted return on sales, where we are aiming at 14 percent. As sales in 2009 declined organically, it is probable that we will hit the lower limit of the target range of 3 to 5 percent in average annual organic sales growth.

Developments up to year-end 2010

	2009	2010
Organic sales growth	–3.5 %	+7.0 %
Organic sales growth, average	–	+1.8 %
Adjusted[1] return on sales (EBIT)	10.0 %	12.3 %
Adjusted[1] earnings per preferred share in euros	1.91	2.82
Growth	–12.8 %	+47.6 %
Average growth*)		+13.5 %

*) Compound annual growth rate (CAGR).

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

In order to further promote achievement of our challenging financial targets, a one-time payment equating to approximately the value of the variable annual remuneration amount (Special Incentive 2012) has been put in place for around 3,000 senior managerial staff of the Henkel Group (Management Circles 0 to IIb). This will be paid on condition that the adjusted return on sales achieved in 2012 is at least 14 percent.

In the event that the 14 percent target is already achieved in 2011, around 60 percent of the special incentive will be non-lapsable. Our aim in introducing this arrangement is to provide a clear incentive to achieve our ambitious return target even earlier, assuming a correspondingly favorable business performance. The Special Incentive 2012 payment will be made in 2013. The program is designed to ensure that no payment takes place if the target of an adjusted return on sales figure of 14 percent is not achieved in both 2011 and 2012. For the specific regulations covering the Special Incentive 2012 scheme for the Management Board, please refer to AR page 35.

Value-based management and control system

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

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

Operational business performance is measured on the basis of operating profit (EBIT adjusted for any goodwill impairment losses). The capital employed figure is calculated from the assets side of the balance sheet. A reconciliation of the year-end figures in the balance sheet to the average values used in determining capital employed can be found on AR page 129.

The cost of capital employed is calculated as a weighted average of the cost of capital (WACC) comprising both equity and debt. In fiscal 2010 we applied a WACC after tax of 7.0 percent. Before tax, the figure was 10.0 percent. We regularly review our cost of capital in order to reflect changing market conditions. Starting fiscal 2011, therefore, we have adopted a WACC of 9.0 percent before tax and 6.5 percent after tax.

10.0 %
Group WACC before tax in fiscal 2010.

We further apply different WACC rates depending on the business sector involved. This is based on sector-specific beta factors taken from a peer group benchmark. In fiscal 2010, this resulted in a WACC before tax of 10.0 percent (7.0 percent after tax) for both Laundry & Home Care and Cosmetics/Toiletries, and of 11.5 percent before tax (8.0 percent after tax) for Adhesive Technologies. In 2011 we are applying a WACC of 9.0 percent before tax (6.5 percent after tax) for the business sectors Laundry & Home Care and Cosmetics/Toiletries, and 10.5 percent before tax (7.5 percent after tax) for Adhesive Technologies.

Weighted average cost of capital (WACC)

	2010	from 2011
Risk-free interest rate	4.3 %	3.3 %
Market risk premium	4.5 %	4.5 %
Beta factor	0.8	0.8
Cost of equity after tax	**8.0 %**	**6.8 %**
Cost of debt capital before tax	5.0 %	4.1 %
Tax shield (30 %)	–1.5 %	–1.2 %
Cost of debt capital after tax	**3.5 %**	**2.9 %**
Share of equity[1] (peer group structure)[2]	75 %	85 %
Share of debt capital[1] (peer group structure)[2]	25 %	15 %
WACC after tax[3]	**7.0 %**	**6.5 %**
Tax rate	30 %	30 %
WACC before tax[3]	**10.0 %**	**9.0 %**

[1] At market values. [2] Previous year: Target structure. [3] Rounded.

WACC before tax by business sector

	2010	from 2011
Laundry & Home Care	10.0 %	9.0 %
Cosmetics/Toiletries	10.0 %	9.0 %
Adhesive Technologies	11.5 %	10.5 %

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

€569 m
economic value added (EVA®) in 2010.

EVA® and ROCE

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

At Henkel, EVA® is calculated as follows:
EVA® = EBIT*) – (Capital Employed x WACC).

In order to be better able to compare business units of varying size, we additionally apply return on capital employed, calculated as follows:
ROCE = EBIT*) ÷ Capital Employed.

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

In fiscal 2010, the Henkel Group posted positive economic value added (EVA®) amounting to 569 million euros, an increase of 770 million euros over the prior-year figure, attributable primarily to the significant increase in operating profits. All our business sectors achieved a positive EVA®. In the case of Laundry & Home Care, the figure came in at 286 million euros, a substantial 23.5 percent above the prior-year level; with 207 million euros, Cosmetics/Toiletries likewise posted an appreciable improvement of 25.8 percent. And the Adhesive Technologies business sector was also able to generate positive EVA® at 73 million euros following a negative 543 million euros in fiscal 2009, due primarily to significant restructuring expenses and one-time charges.

ROCE increased considerably, from 9.8 percent to 14.9 percent. This is essentially due to the highly positive development in operating profit and a virtually unchanged level of capital employed.

Statutory and regulatory situation

Our business is governed by national rules and regulations and – within the European Union (EU) – increasingly by harmonized pan-European laws. In addition, some of our operations are subject to rules and regulations derived from approvals, licenses, certificates or permits.

Our manufacturing operations are bound by rules and regulations with respect to the usage, storage, transportation and handling of certain substances and also in relation to emissions, wastewater, effluent and other waste. The construction and operation of production facilities and other plant and equipment are likewise governed by framework rules and regulations – including those relating to the decontamination of soil.

Product-specific regulations of relevance to us relate in particular to ingredients and input materials, safety of manufacture, the handling of products and their constituents, and the packaging and marketing of these items. The control mechanisms include statutory material-related regulations, usage prohibitions or restrictions, procedural requirements (test and inspection, identification marking, provision of warning labels, etc.), and product liability law.

EVA® and ROCE [1)]

in million euros	Laundry & Home Care	Cosmetics/ Toiletries	Adhesive Technologies	Henkel
EBIT	542	411	884 [5)]	1,729 [5)]
Capital employed	2,558	2,041	7,049	11,595
Cost of capital [2)]	**256**	**204**	**811**	**1,160 [4)]**
EVA® 2010	**286**	**207**	**73**	**569 [4)]**
EVA® 2009	232	164	–543	–201 [3)]
ROCE 2010	**21.2%**	**20.1%**	**12.5%**	**14.9%**
ROCE 2009	19.6%	18.2%	4.8%	9.8%

1) Calculated on the basis of units of 1,000 euros.
2) Calculated on the basis of the different sector-specific WACC rates applied.
3) Calculated on the basis of a WACC rate of 11.5 percent for the Henkel Group.
4) Calculated on the basis of a WACC rate of 10.0 percent for the Henkel Group.
5) EBIT adjusted for 6 million euros attributable to goodwill impairment losses.

*) Adjusted for goodwill impairment losses.

Our internal standards are geared to ensuring compliance with statutory regulations and the safety of our manufacturing facilities and products. The associated requirements have been incorporated within, and implemented through, our management systems, and are subject to a regular audit and review regime. This includes monitoring and evaluating relevant statutory and regulatory requirements and changes.

One important statutory instrument affecting us is the European regulation on the registration, evaluation, authorization and restriction of chemicals – Regulation (EC) No. 1907/2006, abbreviation: REACH. This regulation primarily affects Henkel as a user of chemical materials; however, it also affects us as an importer and manufacturer. In order to ensure the efficient implementation of the associated requirements, we have established a central REACH management team for handling and controlling the main REACH processes.

Business performance

World economy

Overview:
Robust recovery after heavy recession

The world economy recovered from the heavy recession more quickly and more strongly in 2010 than was initially expected. Around the world, gross domestic product underwent strong growth of 4 percent. While the emerging economies registered an increase of around 7 percent, the industrial countries exceeded the prior-year level by about 2.5 percent. Economic output has thus already returned to the pre-crisis level, and in some cases actually exceeded it. A major growth driver was the very expansive money and fiscal policies adopted by individual countries. Interest rates reached historic lows and the financial packages introduced in order to stabilize and stimulate the economy have served their purpose, leading to increasing demand. In addition, consumer confidence in the economy has recovered surprisingly quickly.

Developments in 2010:
Strong first half-year

Running counter to economic development in 2009, which exhibited a substantial decline during the first half of the year, the recovery in 2010 was characterized by a high rate of growth in the first six months, with declining dynamics in the second half-year, although economic output in the second half of 2010 still increased substantially compared to the prior-year period.

Industry and consumption:
Double-digit growth in the industrial sector

With a plus in excess of 10 percent, the industrial sector participated considerably more in the economic recovery than did private consumption, which increased by some 2.5 percent. The export-dependent industries registered particularly strong growth in the intermediaries and capital goods segments. This discrepancy between a dynamic industrial sector and subdued consumer activity is a mirror image of the pattern of the preceding downturn in which industry was heavily recessive while consumption remained relatively stable.

Regions:
Mature markets sluggish, growth regions buoyant

In Western Europe, the upturn was relatively slow with an increase in gross domestic product of around 2 percent. Here, Germany assumed a special role, recording a high rate of growth in excess of 3.5 percent. Improved price competitiveness stimulated German exports, and a robust labor market boosted domestic demand. Although the US economy recovered with a good 2.5 percent growth in gross domestic product, the high unemployment numbers and a substantial state deficit, combined with the fear of a double-dip recession, prevented developments from becoming more dynamic. Economic output in Japan increased by more than 4 percent, primarily due to a rapidly expanding industrial sector. The growth regions of Asia (excluding Japan), Latin America and Africa/Middle East registered strong, in some cases double-digit economic growth. This applies particularly to China, India and Brazil. While India and Brazil grew, primarily due to brisk domestic demand, China posted strong growth both in the export sector and in domestic demand. Eastern Europe lagged behind somewhat by comparison, with Russia – having also benefited from increasing raw material prices – counting among the more dynamic economies within the region with a plus of around 3.5 percent.

Raw material prices:
Rapid increase with some supply shortages

The economic recovery also resulted in an increase in demand for raw materials. In some cases, uptake was so high that supply shortages occurred. Consequently, the prices of important raw materials such as crude oil, ethylene, propylene, palm kernel oil, metals and paper increased further in the course of the year. At around 80 US dollars per barrel, the average price for crude oil for the year was almost 20 dollars above the prior-year level.

Currencies:
Euro in the throes of a European financial crisis

Taking the annual average, the euro depreciated slightly against the dollar compared to the previous year. However, 2010 was characterized by some major fluctuations: at the beginning of the year, the euro dipped below 1.30 US dollars; then, toward the middle of the year, it recovered from this weakness to well above 1.40 US dollars, only to end the period back down at 1.34 US dollars. The causes of this pattern were rooted primarily in the European financial crisis, coupled with the expansive monetary policy adopted by the Federal Reserve in the USA.

The developments in the exchange rates of other important currencies compared to the euro are indicated in the following table:

Average rate of exchange versus the euro

	2009	2010
US dollar	1.39	**1.33**
British pound	0.89	**0.86**
Chinese yuan	9.53	**8.98**
Japanese yen	130.33	**116.38**
Russian ruble	44.15	**40.26**

Inflation:
Global price climate remains calm

The increase in inflation from around 2 to 3 percent was due primarily to the substantial rise in the cost of raw materials and food products. The core inflation rate adjusted for such effects remained virtually unchanged. However, there were significant regional variations. While inflation in the industrialized countries remained exceptionally low – in the USA and Western Europe there was only a very slight increase, while in Japan prices actually declined –, inflation in some emerging economies such as India or China regained momentum due both to strong demand dynamics and the great significance of raw materials and food products.

Unemployment:
Slight increase to 8 percent worldwide

Unemployment in the industrialized regions increased slightly to 8 percent. In the USA and France, levels reached 10 percent, while in Southern Europe, the numbers were significantly higher. In Germany, on the other hand, the labor market proved to be very robust with the rate of unemployment falling almost half a point to 7.4 percent. In the growth regions, levels of unemployment remained stable at around 8 percent.

Developments by sector:
Slight increase in consumption and retail activity

Consumer confidence brightened with the economic revival, and spending levels were a good 2.5 percent higher than in 2009. However, worries about jobs and doubts as to the duration of the upturn kept the rise in check.

The increase in consumer spending – and, linked to this, retail growth – in the industrialized countries remained sluggish at 1.5 percent. In Western Europe, the increase was 1 percent, in the USA 1.5 percent. Consumption in Germany only rose slightly, by 0.5 percent, despite strong overall economic growth. Private consumption in the emerging economies expanded significantly stronger with an increase of 5 percent, although likewise lagging behind the rate of overall economic growth.

Industry undergoes strong revival

Following the crisis year of 2009, fiscal 2010 was characterized by strong industrial recovery. Although some sectors and countries had yet to return to their pre-crisis levels, growth came in at more than 10 percent, reflecting a rapid increase in industrial activity. The rise in export-dependent segments of the intermediates and capital goods sectors, which were hard hit by the crisis, was particularly strong. These include the transport sector, the metals industry and the electronics segment.

All regions posted a significant increase in industrial production. Manufacturing in Western Europe and the USA expanded by around 6 percent. Asia's industry saw volumes more than 15 percent higher, with contributions coming not only from the growth countries of China and South Korea but also Japanese industry, which was able to make good some of the recession-related decline.

Output in the transport and electronics industries, both important customer segments for Henkel, expanded by 18 and 14 percent respectively. In the automotive industry there was a disproportionate rise in the production of high-powered vehicles while output of small-engined cars decelerated, particularly in the second half of the year following the end of the scrappage schemes and similar stimulus programs. Within the electronics sector, growth in basic products such as semiconductors and printed circuit boards was especially high, particularly in the first half of 2010.

Growth in the metals industry was also strong, with expansion coming in at around 11 percent. The situation in the machine construction sector likewise improved significantly, with increasing investment consolidating the upturn. Production here rose by more than 16 percent.

Growth in the consumer-related segments was sluggish. The global packaging industry together with the food, beverage, paper and print segments only showed growth in the low single-digit range.

The development of the construction industry fell below expectations. In global terms, building decreased by almost 2 percent. In the USA, there was a decline in output of more than 10 percent. Decreases in the 4 to 6 percent range were registered in Western Europe and Japan. However, continuing brisk construction activity in the growth regions – China and India especially – kept the global downturn in check.

Management Board review of business performance

2010 was an excellent year for Henkel. Business development was buoyed by substantially improved economic conditions compared to the crisis year of 2009. We were able to grow stronger than our relevant markets in all business sectors, further expanding market share as a result. We also increased the share of sales accounted for by our growth regions to 41 percent.

The relative calm of the procurement markets at the beginning of the year shifted toward a more challenging situation in the course of 2010. The rise in demand and thus the higher prices for raw materials resulting from economic recovery was reflected in our manufacturing costs. However, we were able to more than compensate for these through higher sales volumes leading to improved capacity utilization, and our ongoing efforts to cut costs everywhere. Adjusted[1] gross margin increased to 47.1 percent.

The recovery of our markets and the successful savings resulting from our initiatives to implement structural and cost adjustments were likewise reflected in our earnings. We also successfully completed the integration of the National Starch businesses in this year under review. Adjusted[1] operating profit rose by 36.5 percent to 1,862 million euros, and adjusted[1] return on sales increased by 2.3 percentage points to 12.3 percent, representing the first time we have been able to close a financial year with this metric above the 12 percent mark.

12.3 %
adjusted[1] return on sales.

We further optimized our portfolio through the sale of marginal activities, including our building adhesives business in South Korea and our solder bumps (soldering spheres) operation in Taiwan.

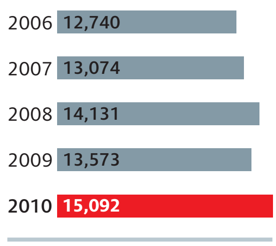
One of our key priorities remains to regain a credit rating of "A flat" (Standard & Poor's) and "A2" (Moody's). Hence, we only pursued acquisitions to an extent that would not inhibit this objective. The year under review saw a substantial improvement in our key financial ratios: thanks to the strong cash flow from operating activities, net debt of the Henkel Group decreased in the course of the year to 2.3 billion euros. Our operating debt coverage rose from 42 percent to 71 percent, and we can generally point to a solid long-term financing structure with sufficient liquidity reserves.

The highly gratifying results of fiscal 2010 have taken us a further step toward our ambitious financial targets for 2012 and we look toward fiscal 2011 with confidence.

Sales and profits

Henkel Group sales in fiscal 2010 increased substantially, to 15,092 million euros, representing a rise of 11.2 percent versus the prior-year level. After adjusting for foreign exchange, the increase in sales was 6.4 percent. In organic terms (i.e. after adjusting for foreign exchange and acquisitions/divestments), sales underwent a comparatively high rate of increase of 7.0 percent against the figure for 2009 so adversely affected by the economic crisis. Volume increases enabled us to more than offset negative pricing trends, encountered particularly in the consumer businesses.

Sales
in million euros



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

In the course of the financial year, growth eased slightly due to the stronger comparative base of the prior-year figures. While organic sales in the first half of the year came in 7.8 percent higher, the curve flattened somewhat in the second half of the year to a rise of 6.2 percent.

Sales development[1)]

in percent	2010
Change versus previous year	11.2
Foreign exchange	4.8
After adjusting for foreign exchange	6.4
Acquisitions/Divestments	–0.6
Organic	7.0
of which price	–1.5
of which volume	8.5

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

Each of the business sectors posted increases in organic sales: Adhesive Technologies performed exceptionally well, achieving a double-digit growth rate of 11.8 percent; Cosmetics/Toiletries continued its positive growth trend of previous years, and with an improvement of 4.8 percent substantially outperformed a stagnating market; and the Laundry & Home Care business sector achieved an organic increase in sales of 1.5 percent within a slightly contracting market environment. In all three business sectors, we succeeded in further expanding our relevant market share.

We were able to increase sales in all our regions:

In Western Europe, revenues increased by 4.3 percent to 5,470 million euros. The organic sales growth achieved of 4.0 percent was supported by all our business sectors, particularly Adhesive Technologies which recorded an organic growth rate in the high single-digit percentage range. Due to the even stronger growth in other regions, however, the share of sales accounted for by Western Europe fell from 39 to 36 percent.

Sales in the Eastern Europe region increased substantially, by 13.7 percent to 2,649 million euros. Organic sales growth came in at 7.2 percent, supported particularly by the business sectors Cosmetics/Toiletries and Adhesive Technologies, both of which posted double-digit percentage growth rates. Sales of the Laundry & Home Care business sector remained at the level of the previous year. The share of sales accounted for by this region rose from 16 to 18 percent.

Africa/Middle East continued to develop very encouragingly, with sales growing by 18.7 percent to 901 million euros. The share of sales of this region remained constant at 6 percent. All three business sectors contributed to the organic sales growth of 12.8 percent, each turning in double-digit increases.

Sales in North America rose by 7.0 percent to 2,724 million euros. Organic sales growth amounted to 3.5 percent thanks to the results achieved by Adhesive Technologies. Sales of the business sectors Laundry & Home Care and Cosmetics/Toiletries decreased. The share of sales accounted for by the North America region fell from 19 to 18 percent.

The region of Latin America continued to perform very well, recording sales growth of 19.1 percent to 982 million euros. The organic sales growth of 9.8 percent was supported by the business sectors Cosmetics/Toiletries and Adhesive Technologies. The share of sales of this region increased from 6 to 7 percent.

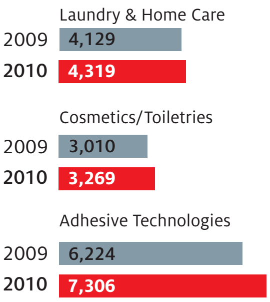
The upward trend was most pronounced in the Asia-Pacific region: sales there increased by 30.8 percent to 2,168 million euros with organic growth at 17.8 percent. The Adhesive Technologies and the Cosmetics/Toiletries business sectors performed particularly well with double-digit growth rates, more than offsetting the organic decline in sales experienced by Laundry & Home Care. Asia-Pacific increased its share of sales compared to the previous year from 12 to 14 percent.

Sales of our growth regions Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) increased by 19.9 percent to 6,132 million euros. Organic growth reached 11.8 percent with contributions coming particularly from the business sectors Adhesive Technologies and Cosmetics/Toiletries. The share of sales of these emerging markets increased from 38 to 41 percent.

To make the development of our underlying operating activities more transparent, in the following we discuss the earnings of our business sectors after adjusting for one-time charges/gains and restructuring charges:

Sales by business sector*)

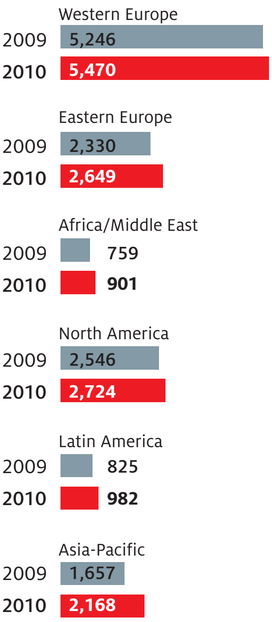
in million euros



*) Excluding Corporate.

Sales by region*)

in million euros



*) Excluding Corporate.

Adjusted[1] operating profit (EBIT)

in million euros	2009	2010	%
EBIT (as reported)	1,080	1,723	59.5
One-time gains	–9	–59	
One-time charges	134	14	
Restructuring charges	159	184	
Adjusted[1] EBIT	1,364	1,862	36.5

Our adjusted[1] operating profit (adjusted EBIT) increased by 36.5 percent, from 1,364 million euros in the previous year to 1,862 million euros in 2010, with all our business sectors contributing. Adjusted[1] return on sales (adjusted EBIT margin) within the Group improved by 2.3 percentage points to 12.3 percent, matching our guidance updated in November 2010 in which we forecast a figure "significantly above 12.0 percent." The biggest margin improvement came from Adhesive Technologies with an increase from 8.1 to 12.8 percent. Contributory factors included strong volume growth and a consistently strict focus on cost. At 13.0 percent (previous year: 12.8 percent) and 13.3 percent (previous year: 12.9 percent) respectively, the consumer businesses Laundry & Home Care and Cosmetics/Toiletries likewise posted gratifying increases in adjusted[1] return on sales, with strict cost control again making a significant contribution.

The positive market environment also contributed to the good earnings performance encountered in our regions:

In Western Europe, operating profit increased to 706 million euros, an improvement of 32.8 percent (32.1 percent after adjusting for foreign exchange). The business sectors Adhesive Technologies and Laundry & Home Care experienced a particularly high increase in their currency-adjusted operating profits. At 12.9 percent, the return on sales for the region was substantially above the prior-year level of 10.1 percent.

In Eastern Europe, we were able to increase EBIT to 314 million euros, a rise of 35.2 percent (25.2 percent after adjusting for foreign exchange). Within this region, all three business sectors were able to improve their currency-adjusted operating profit. The region's return on sales likewise increased significantly, from 10.0 percent in the previous year to 11.9 percent.

The operating profit attributable to Africa/Middle East improved to 81 million euros, an increase of 8.7 percent (0.5 percent after adjusting for foreign exchange), due mainly to the significant increase in profit at Laundry & Home Care. Return on sales in this region came in at 9.0 percent, below the prior-year figure of 9.8 percent.

In North America, operating profit increased considerably to 320 million euros, up 152.7 percent (137.6 percent after adjusting for foreign exchange). With the market environment recovering, the Adhesive Technologies business sector in particular was able to substantially improve its operating result, more than offsetting the decline encountered at Laundry & Home Care. Overall, return on sales rose significantly, from 5.0 to 11.8 percent.

Operating profit in the Latin America region rose substantially to 104 million euros, an improvement of 39.8 percent. After adjusting for foreign exchange, the EBIT increase was 29.9 percent. Return on sales rose by 1.5 percentage points to 10.5 percent.

In the Asia-Pacific region, we more than doubled operating profit to 306 million euros, an increase of 119.7 percent (96.6 percent after adjusting for foreign exchange). This improvement is primarily due to the significant recovery undergone by Adhesive Technologies. The region's return on sales recovered substantially from 8.4 to 14.1 percent.

Further details relating to our business performance can also be found in the reports dealing with the individual business sectors starting on AR page 66.

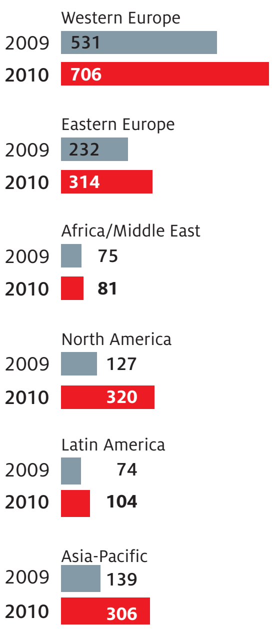
Comparison between actual and forecast business performance

In our report for fiscal 2009, we offered guidance for the coming financial year of 2010 indicating that the sales of our business sectors would again exceed the rate of expansion of our relevant markets and that there would be a noticeable improvement in adjusted[1] operating profit (EBIT) and adjusted[1] earnings per preferred share (EPS) compared to the levels recorded in 2009. We achieved this forecast in full.

In all three business sectors, we posted organic growth rates above those of the relevant markets. At the Group level, we achieved a substantial increase in adjusted[1] operating profit of 36.5 percent to 1,862 million euros (2009: 1,364 million euros) and an even greater rise in adjusted[1] earnings per preferred share of 47.6 percent to 2.82 euros (2009: 1.91 euros).

EBIT by region*)

in million euros



*) Excluding Corporate.

Forecast
for 2010 achieved in full.

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

The adjusted[1] return on sales figure rose by 2.3 percentage points to 12.3 percent, and likewise came in as forecast in our report for the third quarter, published on November 10, 2010, in which our guidance indicated that the figure would be "well above 12.0 percent."

Comparison of forecast versus results for 2010

	Forecast 2010	Results 2010
Organic sales growth	Outperforming relevant market developments	Laundry & Home Care: +1.5 percent (relevant market: −0.8 percent) Cosmetics/Toiletries: +4.8 percent (relevant market: −0.2 percent) Adhesive Technologies: +11.8 percent (relevant market: +5.0 percent)
Adjusted[1] EBIT	Noticeable improvement	Improvement of 36.5 percent
Adjusted[1] earnings per preferred share	Noticeable improvement	Improvement of 47.6 percent

At least
€250 m
in synergies arising from the integration of the National Starch businesses expected for 2011.

47.1 %
adjusted[1] gross margin.

National Starch businesses: Integration in Adhesive Technologies successfully completed

The worldwide integration of the National Starch businesses Adhesives and Electronic Materials acquired in 2008 was successfully completed by the end of 2010. The associated activities were implemented ahead of schedule, and we expect, as a minimum, to safely achieve the synergy savings planned for 2011 in the amount of 250 million euros. Optimization of our joint production network and supply chain, and the identification of additional potential in the sales markets provided the focal points of the integration work in the year just past. On the production side, we have established competence centers in which we have pooled the various technologies, achieving economies of scale as a result. For large portions of our material management activities in Western Europe, we have implemented a regional concept that, in terms of its main features, was taken over from the business model operated by National Starch.

We have systematically identified additional potential in our sales markets and have used the opportunity to offer all our customers the new technologies from National Starch or Henkel, as the case may be, consolidating and further optimizing our product portfolio accordingly. This has led to a substantial reduction in complexity.

Since it was initiated in April 2008, the integration program has made an important contribution to the success of the Adhesive Technologies business sector. The accelerated pace of integration of the National Starch businesses and the associated organizational and strategic realignment of the business sector have together helped us in quickly and effectively establishing an important platform for further profitable growth.

Expense items

In the following, we discuss our operating expense items adjusted for one-time charges/gains and restructuring charges. The reconciliation and the allocation of the restructuring charges between the various items of the income statement can be found on AR page 90.

The cost of sales for the year under review increased compared to the prior-year figure by 9.3 percent to 7,983 million euros. Gross profit rose to 7,109 million euros, with gross margin improving by 0.9 percentage points to 47.1 percent. This positive development was due in particular to our strict focus on achieving efficiency improvements, as well as to the increase in sales volume achieved. These upside factors more than compensated for the effect of decreasing selling prices and the increasing cost of raw materials and packaging.

At 4,229 million euros, marketing, selling and distribution expenses increased by 10.4 percent compared to the figure for the previous year. Again, in 2010, we invested heavily in advertising and promotion in support of our brands, albeit with the ratio as a proportion of sales decreasing slightly by 0.1 percentage points to 28.1 percent.

Our research and development expenses totaled 383 million euros, with the R&D ratio (i.e. research

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

and development expenses expressed as a proportion of sales) at 2.5 percent. The slight decrease compared to the previous year is attributable to synergies arising from our efficiency enhancement programs.

Administrative expenses expressed as a proportion of sales decreased by 0.5 percentage points. This was again due primarily to the effective implementation of our efficiency enhancement programs and the expansion of our Shared Service Centers.

Other operating income and charges

The balance of adjusted other operating income and charges increased to 76 million euros. Higher gains and lower losses from the disposal of non-current assets combined with certain write-ups to produce an improvement overall of 20 million euros. The balance was further boosted by a number of individual transactions from our operating business, for example receipts from insurance claims, grants and subsidies, bonus credits and similar income.

Financial result

Overall, our financial result improved to –171 million euros. The increase in income from our pension fund assets had a particularly positive influence on net interest. The further reduction in our net debt reduced our interest expense, whereas our long-term US dollar interest rate hedges had an increasing effect.

Net income

Income before tax increased by 75.4 percent to 1,552 million euros. Taxes on income amounted to 409 million euros. The tax rate was 26.4 percent, 2.6 percentage points lower than in the previous year. In 2009, the tax rate was burdened by exceptional items arising from the integration of the National Starch businesses.

Net income for the year increased by 82.0 percent to 1,143 million euros. After deducting non-controlling interests of 25 million euros, net income totaled 1,118 million euros (+85.7 percent). Adjusted net income after non-controlling interests rose by 47.9 percent to 1,217 million euros.

The annual financial statements of Henkel AG & Co. KGaA, parent of the Henkel Group, are summarized on AR page 134.

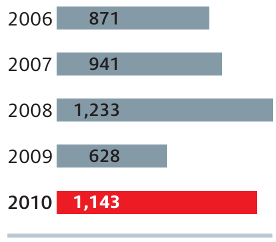
Dividends

According to our financial strategy, our dividend payout ratio should be around 25 percent of the net income attributable to shareholders of Henkel AG & Co. KGaA after adjustment for exceptional items. We therefore intend to propose to the Annual General Meeting that the dividends payable on both classes of share should increase to 0.72 euros per preferred share and 0.70 euros per ordinary share, giving a payout ratio of 25.5 percent.

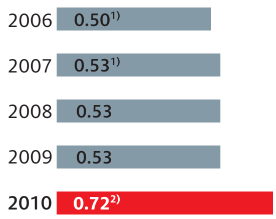
Earnings per share (EPS)

Basic earnings per preferred share increased from 1.40 euros to 2.59 euros, and earnings per ordinary share increased from 1.38 euros to 2.57 euros. Adjusted earnings per preferred share amounted to 2.82 euros (previous year: 1.91 euros). As of December 31, 2010, the Stock Incentive Plan introduced in 2000 resulted in a dilution of earnings per ordinary and per preferred share of 1 eurocent each.

Net income
in million euros



Preferred share dividends
in euros



[1] Comparable based on share split (1:3) of June 18, 2007.
[2] Proposal.

Condensed income statement from sales to adjusted operating profit

in million euros	2009	%	2010	%	Change
Sales	13,573	100.0	15,092	100.0	11.2%
Cost of sales	–7,305	–53.8	–7,983	–52.9	9.3%
Gross profit	6,268	46.2	7,109	47.1	13.4%
Marketing, selling and distribution expenses	–3,830	–28.2	–4,229	–28.1	10.4%
Research and development expenses	–383	–2.8	–383	–2.5	0.0%
Administrative expenses	–703	–5.2	–711	–4.7	1.1%
Other operating income/charges	12	0.1	76	0.5	>100%
Adjusted operating profit (EBIT)	1,364	10.0	1,862	12.3	36.5%

Assets and financial analysis

Acquisitions and divestments

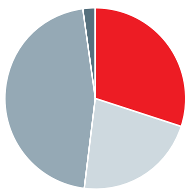
Within the Laundry & Home Care business sector, we increased our shareholding in two companies to 100 percent, spending 23 million euros in Guatemala and 6 million euros in Cyprus in the process.

In the Cosmetics/Toiletries business sector, we paid 41 million euros to acquire Schwarzkopf Inc., Culver City, California, USA, in order to better utilize the potential available from having a direct presence in the marketplace. We also spent 1 million euros on an acquisition in the Middle East.

Within the Adhesive Technologies business sector, we increased our shareholding in a company in China to 100 percent at a cost of 7 million euros. In Taiwan, we sold our business involving solder bumps/spheres for 5 million euros. Activities not regarded as core were sold in South Korea for 15 million euros, and in Japan for 2 million euros.

Neither the acquisitions and divestments made nor the other measures resulted in changes in our business and organizational structure. For further details relating to our organization and business activities, please refer to the corresponding passages on AR page 40.

Capital expenditures by business sector



- 33 % Laundry & Home Care
- 17 % Cosmetics/Toiletries
- 46 % Adhesive Technologies
- 4 % Corporate

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

Capital expenditures

Capital expenditures (excluding financial assets) amounted to 256 million euros in the year under review. Investments in property, plant and equipment for our continuing operations totaled 240 million euros, 104 million euros below the level of the previous year. This decrease is essentially due to a reduction in our investment plans and postponement of major capital expenditure projects. A large portion of the 2010 spend was on property, plant and equipment due to continuing integration and consolidation work involving the acquired National Starch sites. Further focal points were structural optimizations in production, and investments in plant for the manufacture of innovative, sustainable product lines.

Among the major individual projects of 2010 were the following:

- New production plant for liquid-gel detergents in Vienna, Austria (Laundry & Home Care).
- Expansion of the storage capacity for laundry care detergents in Russia and Italy (Laundry & Home Care).
- Production plant for a new deo-roller generation in West Hazleton, Pennsylvania, USA (Cosmetics/Toiletries).
- Expansion in the production of shower gels in West Hazleton, Pennsylvania, USA (Cosmetics/Toiletries).
- Completion and commissioning of new production facilities for building adhesives in Ukraine and Russia (Adhesive Technologies).
- Expansion in the production of hotmelt adhesives in Bopfingen, Germany (Adhesive Technologies).
- Commissioning of the new finished goods warehouse for consumer adhesives in Louisville, Kentucky, USA (Adhesive Technologies).

Capital expenditures 2010

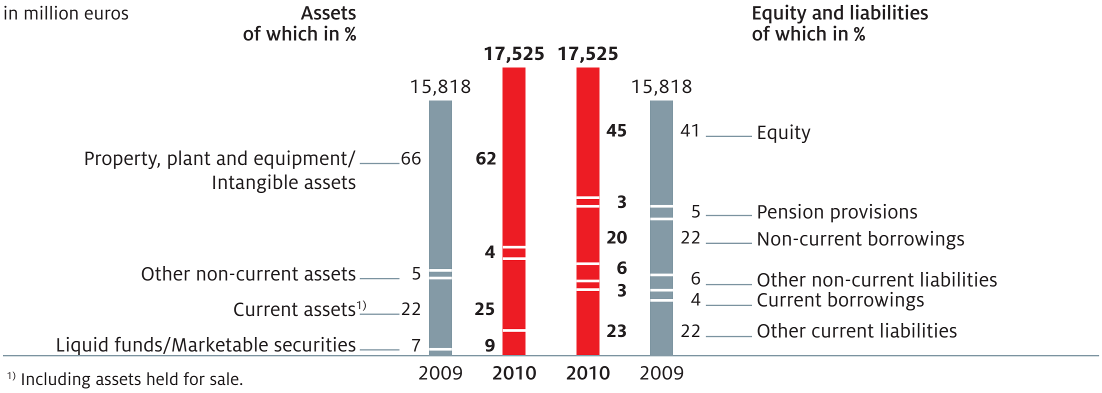
in million euros	Continuing operations	Acquisitions	Total
Intangible assets	16	4	20
Property, plant and equipment	240	–	240
Total	256	4	260

For structural reasons, the emphasis of our capital expenditures in 2010 lay in Europe and North America. Around two thirds of the investment sum was spent on expansion projects.

Net assets

The balance sheet total in 2010 rose to 17.5 billion euros, an increase of 1.7 billion euros compared to the prior-year figure. On the assets side, the increase in intangible assets was essentially due to currency translation gains resulting from the stronger US dollar. There was a slight reduction in the total for property, plant and equipment, with investments of 240 million euros in continuing operations being offset by depreciation amounting to 342 million euros and disposals with a book value of 38 million euros. Foreign exchange exerted a countervailing positive effect of 100 million euros.

Balance sheet structure
in million euros



[1] Including assets held for sale.

Current assets grew from 4.6 billion euros to 5.9 billion euros. This is attributable not only to foreign exchange influences but also higher inventories and trade accounts receivable arising from the expansion in business volume. Other current financial assets were affected by the higher fair values of the interest rate derivatives entered into in order to hedge our long-term financial debts. Liquid funds increased as a result of a further strong cash flow from operating activities, finishing 405 million euros higher at 1,515 million euros.

Equity including non-controlling interests rose to 7,950 million euros. The changes are shown in detail in the statement on AR page 91. The equity ratio increased compared to the previous year by 4.0 percentage points to 45.4 percent.

Non-current liabilities remained stable year-on-year at around 5.1 billion euros. The increase in non-current borrowings of 144 million euros is primarily due to the translation of debt denominated in US dollars. We used our strong operating cash flow to add significantly to our pension fund assets, which contributed to a reduction in our pension provisions under the pension obligations heading.

Current liabilities rose 316 million euros. This was due to an increase of 423 million euros in trade accounts payable, offset by a decrease in our current borrowings of 124 million euros, and reflects the higher purchasing volumes resulting from our positive business development.

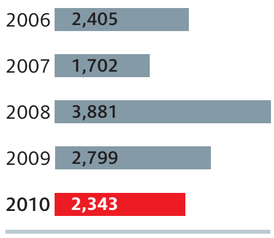
We were able to further reduce net debt[1] in the course of the financial year. At 2,343 million euros, the year-end figure was 456 million euros below that of the previous year.

Financing

The finances of the Group are centrally managed by Henkel AG & Co. KGaA. Financial funds constitute a global resource and are, as a rule, centrally procured and then allocated within the Group. We pursue a conservative borrowings policy aligned to flexibility and characterized by a balanced financing portfolio. The primary goals of financial management are to secure the liquidity and creditworthiness of the Group, and to achieve a sustainable increase in shareholder value. Our capital needs and capital procurement activities are coordinated to ensure that the requirements with respect to yield, liquidity, security and independence are taken into account and appropriately balanced. Cash flows not required for capital expenditures, dividends and interest payments are used to reduce our net debt, for funds allocated to our pension assets and in the financing of acquisitions. We cover our short-term financing requirement primarily with commercial papers and bank loans. Our multi-currency commercial paper program is additionally secured by a syndicated credit facility. The outstanding bonds serve to cover long-term financing requirements.

Our creditworthiness is regularly checked by the two rating agencies Standard & Poor's and Moody's.

Net debt
in million euros



[1] Borrowings less liquid funds minus any positive or plus any negative fair values of hedging contracts covering those borrowings, providing that the underlying borrowings are themselves subject to mark-to-market accounting.

Both currently place Henkel in the highest category, the Investment Grade Segment, with "A–/A–2" (S&P) and "A3/P2" (Moody's). We are endeavoring to achieve a long-term credit rating one notch higher at "A flat" (Standard & Poor's) and "A2" (Moody's).

Credit ratings

	Standard & Poor's	Moody's
Long-term	A–	A3
Outlook	Stable	Stable
Short-term	A–2	P2

At December 31, 2010.

At December 31, 2010, our non-current borrowings amounted to 3,570 million euros. Included in this figure are the hybrid bond issued in November 2005 with a nominal value of 1.3 billion euros, and the fixed-interest bonds issued in May 2003 and March 2009, each with a volume of 1.0 billion euros. Our current borrowings – i.e. those with maturities of less than 12 months – amounted to 536 million euros as of the balance sheet date. These essentially comprise interest-bearing loans and overdrafts from banks.

We used the cash flow from operating activities to redeem current borrowings and to build up our liquid funds. As a result, we have reduced our overall net debt. The hybrid bond is treated by Standard & Poor's as 50 percent equity, and – following a change in its evaluation method – also as 50 percent equity by Moody's. This reduces the rating-specific debt ratios of the Group (see key financial ratios table on AR page 55).

For further information on our financial stewardship and our financial instruments, please refer to AR Notes 30 and 31 on pages 115 to 121.

Henkel's financial risk management activities are explained in the risk report on AR pages 78 to 82.

Financial position

Cash flow from operating activities in 2010 amounted to 1,851 million euros, close to the level of the previous year. The cash inflow was boosted by the substantial increase in operating profits.

Low tax payments in respect of previous years and the utilization of losses carried forward meant that the outgoings for taxes on income rose at a lower rate than operating profits. Despite the substantial revival in business, cash flow from net working capital was extensively neutral. In the previous year, optimization measures had led to a substantial reduction in net working capital.

Cash flow from investing activities/acquisitions was positively affected by a lower level of investment in intangible assets and property, plant and equipment compared to the previous year. Conversely, following the sale of the North American consumer adhesives brands in 2009, proceeds from the sale of individual activities were lower in the year under review.

Cash flow from operating activities was also used in the year under review to increase the allocations made to pension fund assets. The resultant rise in pension funding increased the associated coverage ratio to the targeted level of around 90 percent. These additional investments and the reduction in borrowings led to an increase in cash outflow from financing activities of 291 million euros compared to the previous year.

Liquid funds/marketable securities increased as a result of the higher cash flow from operating activities, by 405 million euros to 1,515 million euros.

At 1,508 million euros, free cash flow came in 46 million euros higher than the comparable prior-year level, due primarily to developments in cash flow from operating activities, with lower investment volumes in the year under review also contributing.

Key financial ratios

The interest coverage ratio, i.e. EBITDA divided by our net interest expense, benefited both from a reduction in the latter and a higher EBITDA level.

The reduction in net debt in 2010 has had a favorable effect on operating debt coverage. And the increase in the equity ratio reflects the Group's improved financial strength in the year under review.

Key financial ratios

	2009	2010
Interest coverage ratio (EBITDA ÷ Net interest expense including interest element of pension provisions)	8.7	12.8
Operating debt coverage (Net earnings + amortization and depreciation + Interest element of pension provisions ÷ Net borrowings and pension provisions)[1]	41.8%	71.4%
Equity ratio (Equity ÷ Total assets)	41.4%	45.4%

[1] Hybrid bond included on 50 percent debt basis only.

Employees

The positive economic developments and the effects of our expeditiously completed restructuring programs variously impacted headcount in 2010. As a result, the number of people employed at Henkel at the end of the reporting period decreased slightly by 1,408 to 47,854. Sales per capita increased substantially, by 19 percent to 313,502 euros. Henkel Group payroll costs amounted to 2,487 million euros. In accordance with our strategy of expanding our growth regions, we increased our personnel levels in Eastern Europe and Asia, while reducing them in the mature markets of Western Europe and North America. We intend to further boost the employee numbers in the emerging economies in 2011, particularly in the fields of marketing, sales and distribution.

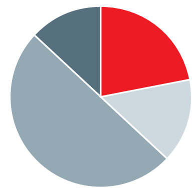
2010 again saw us successfully position ourselves as an attractive company in employer rankings in many countries, both for university graduates and for candidates with professional experience. As an example, the CRF Institute, one of the leading research organizations in the field of employer certification and branding, put Henkel in first place in its "Top Arbeitgeber Deutschland 2010" [Top Employers in Germany 2010] benchmarking exercise.

Around the world, we work closely with selected universities and faculty professors of renown in order to attract the best young talent to the Group. Following the successful conclusion of the third "Henkel Innovation Challenge," our creative competition for students, we launched a fourth edition for the 2010/2011 winter semester, encompassing 14 European and 4 Asian countries. We are making greater use of social media such as Facebook as a means of staying in touch with students as a target audience and keeping them updated on progress in the Henkel Innovation Challenge. A simplified participation process and an accompanying mentor program have further enhanced the attractiveness of the competition, leading to a significant increase in high-quality submissions received.

In 2010, we worked extensively on a new employer branding campaign accentuating Henkel's positive attributes and the opportunities available at the company. Our aim is to position Henkel more effectively as the employer of choice in 2011 and beyond. We want to encourage the best talents from around the world to consider a career at Henkel. However, it is just as important to retain existing employees and to strengthen their loyalty in the company.

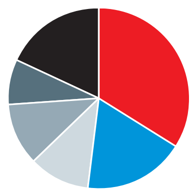
In Germany, Henkel offers apprenticeships in more than 20 professions, and in the year under review we hired 165 new apprentices. In all, the number of apprentices under contract is 494. In 2010, the first eight apprentices taking the plant fire-fighter course, in the development of which Henkel was substantially involved, completed their final examinations for their Chamber of Industry and Commerce [IHK] qualifications. Beyond apprenticeship training, we have also firmly established the dual study courses introduced in 2009. Here, students are able to combine a conventional apprenticeship with a Bachelor degree at a university, allowing them to obtain academic qualifications combined

Employees by business sector



- 22% Laundry & Home Care
- 15% Cosmetics/Toiletries
- 50% Adhesive Technologies
- 13% Functions

Employees by region in 2010



- 34% Western Europe
- 18% Eastern Europe
- 11% Africa/Middle East
- 11% North America
- 8% Latin America
- 18% Asia-Pacific

Employees

(at December 31[1])	2006	%	2007	%	2008	%	2009	%	2010	%
Europe/Africa/Middle East	33,326	64.3	33,687	64.0	33,485	60.7	30,933	62.8	**30,078**	**62.9**
North America	6,651	12.8	6,438	12.2	7,360	13.4	5,714	11.6	**5,440**	**11.4**
Latin America	4,297	8.3	4,268	8.1	4,293	7.8	4,002	8.1	**3,699**	**7.7**
Asia-Pacific	7,545	14.6	8,235	15.7	10,004	18.1	8,613	17.5	**8,637**	**18.0**
Total	**51,819**	**100.0**	**52,628**	**100.0**	**55,142**	**100.0**	**49,262**	**100.0**	**47,854**	**100.0**

[1] Base: permanent employees excluding apprentices.

Employees by activity

- 49% Production and engineering
- 31% Marketing, selling and distribution
- 14% Administration
- 6% Research and development

Employees by age group

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

Around **29%** of our managers are female.

with practical professional training. The number of applicants for the two kinds of training course increased substantially compared to the previous year, providing a good indication of the attractiveness of a Henkel training position. Our application process, which includes profession-specific suitability diagnostics, has been further optimized on the "online only" principle. This provides candidates with all the advantages of a smooth, computerized application process, while also enhancing our own internal efficiency.

The talent management process, which was extended to include all our managers worldwide in 2009, has now become firmly established at Henkel. At the core of this approach are our so-called development round tables. Here, groups of managers chaired by their own line manager evaluate the performance and potential of their employees based on global standards, and jointly decide on appropriate further development measures. In 2010, we integrated the management competence appraisal performed by line managers, which had previously taken place concurrently, in this process and adapted it to the future requirements of a changing market environment. In particular, the precise definition of potential competence and performance criteria together with clear distinctions separating the two make the process even more transparent for employees and managers, enabling consistent and comprehensive feedback following the development round table discussions. During these feedback sessions, the line manager explains to his or her employees where their strengths lie and where there may be a need for further development, with the two parties jointly preparing individual development plans for implementation.

By maintaining this regular feedback process relating to individual performance and target achievement, we are able both to strengthen the motivation of our employees and to more effectively honor excellent performance. In particular, the now significantly further developed and more performance-aligned compensation system for our managers around the world, which is being introduced effective 2011, will also make a substantial contribution in this regard. Through this we will achieve an improved and more transparent system of performance differentiation – i.e. a clearer link between personal contribution and individual remuneration. Future payments will be based not only on the basic salary and a factor aligned to the management level, but also in particular on three factors: weighted group and team components, which are added together and offer a substantial incentive to achieve the growth and profitability targets, and an individual component which takes into account the personal performance of the employee and serves as a factor influencing the sum of the first two components. Involving the employees in the success of the company underpins our winning culture and is especially important for the attainment of the company's strategic objectives.

The further development of our global team is also particularly important for the establishment of a winning culture. Hence, we continuously promote the technical and managerial competences of our employees in events especially designed for this purpose. We also make use of international development and assessment centers in order to match the current competence profile of our managers to the future requirements of the company. If, in the course of this process, indications arise as to possible fields of development, we are able to specifically improve the relevant skills and abilities with appropriately challenging training courses held, for instance, in collaboration with internationally renowned business schools. In order to meet the requirements of stable succession planning and cultural diversity within the company, we established in 2010 an Executive Resource Program for high-performing employees offering potential for further development. To properly prepare these managers for their future tasks, we consistently support them within a cross-divisional approach, the outcome of which is a tailored development profile.

One of the focal points of our work in the field of diversity and inclusion in 2010 was on communications. We highlighted various aspects of diversity (gender, nationality, disabilities) in a regular column in our employee magazine, and also launched an internationally acclaimed diversity blog. Our international team of diversity "ambassadors" has grown further and remains active on a worldwide scale. Their remit is to develop and implement local initiatives to promote diversity. Great effort has also gone into the development of a mentoring concept. This involves bringing experienced managers (mentors) together with young managers (mentees) in an informal framework so that the former can provide the latter with support for their personal and professional development. This occurs in addition to the professional training and employee development that takes place under the supervision of a direct line manager. Having launched a pilot mentoring program in Russia in 2010, we are now planning the worldwide introduction of wider-ranging mentoring schemes for 2011.

Established in 2006, the German Diversity Charter Association was transferred to a public-private partnership in 2010. Henkel is one of the eleven founding members of this association. The "Charta der Vielfalt," as it is called, is a fundamental commitment to diversity, tolerance, fairness and employee appreciation in a workplace free of prejudice. Across Germany, around 870 companies have so far signed up to the "Charta der Vielfalt" and all that it represents.

Procurement

Fiscal 2010 saw a repeat of the extraordinary price fluctuations in the procurement markets. The upsurge in the cost of petrochemical derivatives continued, reaching other commodity markets such as oleochemical products, paper and metals. The increase in price levels was further exacerbated by supply shortages in the commodity markets arising from low stocking levels coinciding with unexpectedly high increases in demand. Disruptions in the supply chain caused by postponed maintenance measures and unforeseen failures of production facilities further increased the severity of the situation. In the case of input raw materials, these developments led to price levels which, on average, were substantially above those of the previous year. These eventually filtered through, increasing the cost of the raw materials and packaging purchased by Henkel.

Our expenditures on direct materials (raw materials, packaging, contract manufacturing and traded goods) in the year under review amounted to 6.7 billion euros, an increase compared to the previous year of 0.8 billion euros. This is largely due to rising production volumes, higher raw material prices and foreign exchange effects. Although the higher raw material prices were mitigated by our global procurement strategies, they could not be fully offset.

Aside from ongoing efforts to negotiate new, competitive contractual conditions, our global program aligned to reducing overall procurement cost is a major factor in the success of our purchasing strategy. Together with the three business sectors, we are permanently engaged in reducing product complexity, optimizing our raw material mix and promoting the further standardization of packaging and raw materials. This gives us stronger negotiating positions and creates scope for further consolidation of our vendor base, while also providing our primary strategic suppliers with the platform for sales growth across all our business sectors. In the course of the last two years, Henkel has reduced its number of suppliers by 25 percent. In establishing long-term business relationships, we are focusing our efforts on suppliers in which we see potential with respect to innovation, optimization of manufacturing cost and logistics processes and also risk management geared to the avoidance of supply shortages. And we support such developments through individual target agreements.

In order to improve efficiency and secure material supplies, we consistently endeavor to optimize our value chain while maintaining an excellent quality level. The associated activities are supported and accompanied by increasing consolidation, centralization and automation of our procurement processes.

The standardization and central control of our terms and conditions of payment across all regions and business sectors also contribute to the steady improvement of the situation with regard to net working capital.

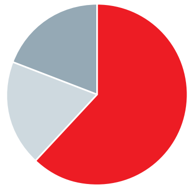
With a procurement market environment characterized by constant price fluctuations and supply shortages, a pro-active approach to risk management is an important aspect of our purchasing strategy. The emphasis here is again on reducing price and supply risks while maintaining uniformly high quality. In adopting an active price management approach, we deploy strategies aligned to safeguarding prices over the long term both through contracts and – where appropriate and possible – by means of financial hedging instruments. In order to minimize the problem of vendor failure to deliver, we put in place supply disruption clauses and perform detailed risk assessments of our vendors to determine their financial stability. Important suppliers whose financial situation is regarded as critical undergo continuous monitoring by an external, independent financial services provider. If a high risk of failure of a vendor is identified, we systematically prepare back-up plans in order to ensure consistency of supply.

Our five most important raw material groups are surfactants, raw materials for polyurethane-based

Material expenditures by business sector

- 31 % Laundry & Home Care
- 19 % Cosmetics/Toiletries
- 50 % Adhesive Technologies

Material expenditures by type



- 62 % Raw materials
- 19 % Packaging
- 19 % Contract manufacturing and traded goods

adhesives, raw materials for water-based adhesive systems, raw materials for use in hotmelt adhesives, and inorganic raw materials for use e.g. in detergents and surface treatment products. These account for around 31 percent of our total direct material expenditures. Our five largest suppliers account for around 13 percent of our direct material cost.

Because of the substantial improvement in business in the course of the year under review, demand for indirect materials and services also increased, as did that for logistics services. At the same time, we were able to reduce the purchase prices paid compared to the previous year in all categories through savings achieved at both the regional and global level resulting from the sourcing strategies implemented throughout the corporation. Expenditures increased overall by 0.5 billion euros to 3.9 billion euros.

Production

Fiscal 2010 saw us further optimize our production sites. Henkel operates 188 facilities in 57 countries. Our largest production center is in Düsseldorf, Germany. Here we manufacture not only detergents and household cleaners but also adhesives for consumers and craftsmen, and products for our industrial customers.

Our Düsseldorf facility is also the largest production site of the Laundry & Home Care business sector. Here we predominantly manufacture powder and liquid detergents, fabric softeners and liquid cleaning products. Overall, we have upgraded our German-based production activities within our European manufacturing concept. Consequently, the Düsseldorf site has seen the commissioning of a new plant for the manufacture of liquid laundry and home care products for the markets of Germany, Benelux and Switzerland. In the year under review, we further reduced the number of production sites around the world from 33 to 31. By concentrating our laundry and home care product manufacturing activities on fewer, high-performance factories close to our customers, we have been able to achieve a number of significant cost and sustainability advantages.

Our biggest production plant serving the Cosmetics/Toiletries business sector is located in Wassertrüdingen, Germany. In addition to body and hair care products for consumers, we also manufacture products for the salon business here. With eight facilities worldwide, we have an efficient manufacturing network serving our Cosmetics/Toiletries business sector.

The two largest sites for Adhesive Technologies are likewise located in Germany: in Düsseldorf – with a portfolio of high-quality specialty adhesives for industry and consumers – and in Heidelberg, where we manufacture a broad range of adhesives and sealants. As part of the program to optimize our global production activities, we continued the process of consolidating our production network in 2010, reducing the number of factories by 13 to 149. We also intend to further streamline our production network in accordance with regional requirements in 2011 in order to further reduce our manufacturing costs. At the same time, we are expanding our capacities in the growth regions: in 2010, we took the decision to construct a plant in China destined to be our largest facility worldwide.

We have improved our production network throughout the Group within the framework of the efficiency enhancement programs implemented, part of which involved further reducing the number of manufacturing sites in the developed markets. We have also cut complexity within the overall value chain with respect to both production and logistics, and specifically in product manufacturing and our vendor selection process. As a result, we have been able to substantially increase efficiency and reduce cost.

Our optimization activities are also aligned to making our manufacturing operations ever more environmentally compatible. Measures to reduce energy consumption and water usage make a direct contribution to improving the climate compatibility of our manufacturing processes. New storage concepts and the manufacture of packaging materials at the point of fill also reduce transportation, likewise contributing to climate protection. For further details relating to our environmental performance, please refer to the sustainability report on AR page 64.

The current and planned measures are expected to contribute in equal measure to both cost optimization and improved sustainability. The main priorities are to achieve additional savings in resources with respect to raw materials and packaging, to introduce further improvements in the supply chain, and to make greater use of advanced IT systems for planning and control.

Number of production sites

	2009	2010
Laundry & Home Care	33	31
Cosmetics/Toiletries	8	8
Adhesive Technologies	162	149
Total	**203**	**188**

Research and development

Expenditures within the Henkel Group on research and development amounted to 391 million euros (adjusted for restructuring charges: 383 million euros) in the year under review, compared to 396 million euros (adjusted: 383 million euros) in 2009. This demonstrates Henkel's continuing commitment to innovation as the most important driver of profitable growth. Related to sales, the R&D ratio was 2.6 percent (adjusted: 2.5 percent), compared to 2.9 percent (adjusted: 2.8 percent) in the previous year.

Our research and development expenditures were primarily aligned to polymers and surface modification, areas of major significance for all three business sectors. Around 55 percent of our total R&D spend was on personnel expenses.

Our research and expenditure costs were completely expensed in the year under review – there were no development costs qualifying for capitalization in accordance with International Financial Reporting Standards.

As an annual average, the number of employees working in research and development at our sites around the world was 2,665 (2009: 2,743), corresponding to 6 percent of the total workforce. The main reasons for the decrease in employee numbers lay in the restructuring program initiated in 2008, and the associated dissolution of our Corporate Research division, coupled with the integration of the National Starch businesses. The departments of Corporate Research were integrated within the research units of our three operating business sectors in 2008, providing a closer market focus for the associated activities.

Key R&D figures

	2006	2007	2008	2009	2010
R&D expenditures (million euros)	340	350	377[1)]	383[1)]	**383[1)]**
R&D expenditures (in % of sales)	2.7	2.7	2.7[1)]	2.8[1)]	**2.5[1)]**
Employees (annual average)	2,800	2,794	2,942	2,743	**2,665**

[1)] Adjusted for restructuring charges.

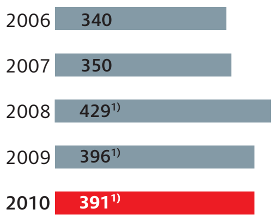
The success of our research and development activities derives from the skills and capabilities of our highly qualified employees. Our teams comprise scientists, predominantly chemists, supported by engineers and technologists; 18 percent of our R&D employees hold doctorates.

As part of our research and development strategy, we have further developed our "open innovation" approach which involves greater collaboration with and integration of university teams, research institutes, suppliers and customers in our innovation processes. We have also increased the funds available for cooperation with such external partners. The following examples show the success that we have achieved through this concept:

- In recognition of the innovative Re-New effect in specialty detergent formulations, The Dow Chemical Company received our "Best Innovation Contributor Award 2010." The associated polymer developed especially for this purpose actively promotes the shape retention of fabrics.
- In cooperation with our partners in industry, universities and research institutes, we have developed antibacterial silver molecules for our new Right Guard deodorants, innovative synergistic polymer combinations for Taft foam hair-hold mousse products, and stem cell technology for our Diadermine Novagen anti-aging cosmetics.
- Collaborating with a major automobile manufacturer and Tongji University in Shanghai, China, our business sector Adhesive Technologies has developed a new generation of structural adhesives for light-weight construction in the automotive field.

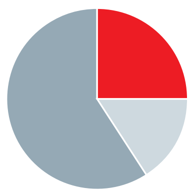
R&D expenditures

in million euros



[1)] Includes restructuring charges of 52 million euros (2008), 13 million euros (2009), 8 million euros (2010).

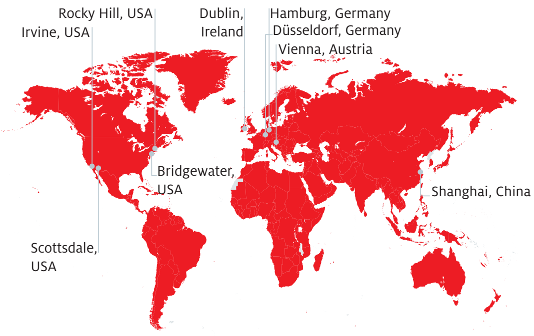
R&D expenditures by business sector



25% Laundry & Home Care
16% Cosmetics/Toiletries
59% Adhesive Technologies

- As part of our strategy for Asia-Pacific, we have initiated major research activities with Japanese and Chinese universities and research institutes, involving for example projects for weight reduction in vehicle production.

Major R&D sites



Our scientists have made key contributions to our corporate success in many areas. The following examples provide just a selection of major recent achievements:

Laundry & Home Care

- Development of specialty laundry detergent formulations with significantly improved color protection and rejuvenation in colored and black washes.
- Development of a modern and discreetly designed WC rim block with four active pearls for the functions: foam cleaning, limescale removal, protection against resoiling, and extra freshness.
- Development of a new generation of hand-dishwashing products with Power Crystals that you can feel, enabling the fast and effortless removal of stubborn grease residues and a higher product yield.

Cosmetics/Toiletries

- Development of the first ammonia-free, permanent mousse colorant.
- Development of innovative anti-perspirant technologies with a five-fold effect: a patented power stripe and power gel technology offer particularly effective prevention of underarm wetness and neutralize odor-forming bacteria, thus helping prevent body odor for up to 48 hours. The patent-pending deo-active capsules provide additional protection under situations of stress and increased activity.
- Formulation of innovative styling products that guarantee volume for 48 hours without weighing down the hair, and the development of a powder which, when rubbed between the hands, transforms into a gloss-giving hair cream.

Adhesive Technologies

- Development of the first MDI (methylene diphenyl di-isocyanate)-reduced and therefore label-free polyurethane foam for consumers and craftsmen: Pattex Power PU Foam.
- Development of a new generation of Liofol Robust, a laminating adhesive that is easier and safer for customers to use thanks to more flexible and reduced curing times.
- Development of Terophon HDF, a new generation of vibration-damping materials for the automotive industry offering very good sound insulation and reduced weight.

All these new products and developments exhibit an improved sustainability profile: lower energy consumption, use of renewable raw materials and reduced waste.

Each year we select a number of outstanding developments for our Fritz Henkel Award for Innovation. In 2010, this accolade went to three interdisciplinary project teams in recognition of their efforts in the realization and commercialization of the following concepts:

- **Hygiene product range:** The laundry detergent Dixan Igiene e Purezza (hygiene and purity) marketed in Italy imparts freshness and purity to the wash, even at low temperatures. With more and more laundry being washed at temperatures of not more than 30 to 40 degrees Celsius, the addition of one dose of Persil hygiene rinse to the conventional laundry product is sufficient to remove 99.99 percent of all bacteria and germs. The new household cleaning products Bref/Dac Disinfectant offer superior, long-lasting disinfection performance: they work immediately and continue to protect against bacteria in the household for up to 24 hours. The entire Hygiene product range delivers outstanding cleanliness both of the laundry and hard surfaces, while also contributing to our sustainability focal areas of health and safety, and energy and climate.
- **Syoss Color:** Syoss Color offers long-lasting color, gloss and gray coverage with professional

quality at an affordable price for at-home applications. The permanent colorant contains a high-performance formula with a color-intensive pigment blend, delivering a true, intensive and lustrous look. Syoss Color ensures that the pigment blend is sealed deep into the hair, to produce long-lasting, intensive colors. The color sealing conditioner with Nutri-Care Complex structures the hair after coloration from the inside out, generating a scintillating shine.

- **Loctite HF:** Our halogen-free structural adhesives are used by the most innovative manufacturers of portable electronic devices. These unique adhesives create particularly strong, fast-curing and resistant bonds between a variety of materials. In addition to the patented halogen-free curing system, the flow behavior and reaction speed can also be tailored to individual requirements, ensuring reliable dosage application and curing even in the case of extremely thin adhesive films of 0.3 millimeters or less.

We currently hold some 7,500 patents as protection for our technologies around the world. We also have around 5,000 patent applications pending, and own approximately 2,000 registered designs safeguarding our intellectual property.

Further information on our research and development activities can be found on our website
www.henkel.com/innovation

Marketing and distribution

Our customers are at the center of what we do. Consequently, we align our marketing and distribution activities in each of our business sectors to the respective requirements of our various target groups.

At Laundry & Home Care, our marketing activities are controlled from headquarters and regional competence centers. Our approach is to prioritize product categories in order to target investments in the brands and market segments of greatest importance for us with a view to generating disproportionate growth in those areas. Our sales and distribution activities, on the other hand, are planned on a country-specific basis and coordinated at the regional level. Our primary direct customer grouping is the grocery retail trade with distribution channels in the form of supermarkets, mass merchandizers/hypermarkets and discount stores. In Europe, drug stores are also extremely important, while in the markets outside Europe and North America, a large proportion of sales continues to be channeled via wholesalers and distributors. Our Sales unit provides a full range of competences in serving our trade customers. In marketing, however, we focus on the requirements of the end consumer. Our Marketing unit initiates innovation processes, applying knowledge acquired from market research and analysis. In order to address consumers directly, our marketing teams also develop and implement especially targeted media strategies and advertising formats.

At the Cosmetics/Toiletries business sector, our marketing strategies are globally developed and locally implemented in the case of both our branded consumer goods and our professional hair salon business. Here too, our sales activities are controlled on a national level while being increasingly internationally coordinated. We communicate with consumers primarily through media advertising and point-of-sale measures. Our communication and advertising activities involving the new web-based media have recently been intensified. Consumers purchase our products from retailers, primarily in the form of drug stores, grocery stores, supermarkets and department stores. We address our customers in the salon business directly through the activities of our sales force. Field sales representatives support the salons at a local level with, for example, product demonstrations and technical advice. As an additional service, we also offer specialist seminars and training courses in our globally established Schwarzkopf academies.

Our Adhesive Technologies business sector serves a wide range of clientèle from large, internationally active corporations to small and medium-sized industrial businesses, craftsmen, do-it-yourselfers and private home consumers, all with specific needs and applications.

For the most part, our customers are addressed by our own sales personnel. Our direct customers are industrial clients and retail companies; these latter are able to meet demand from private users, craftsmen and small industrial customers more efficiently than is possible through direct sales. While the grocery retailers, DIY stores and specialist retailers are of great importance for the private user, craftsmen purchase our products primarily from specialist wholesalers. Due to our unique global position, we are able to support internationally active customers such as automobile manufacturers or large retail chains effectively and comprehensively with key account management teams. As many of our products are characterized by their high technical complexity, our Technical Customer Services and the training of users also have an important role to play. The staff at Technical Customer Services possess detailed knowledge both of the properties of our products and of their customer-specific application, and can therefore assist our clients in everything from the choice of the right product to optimization of their manufacturing processes.

The close contact maintained by our employees with our customers and users is also an important source of input for innovation, enabling us to meet existing requirements even more effectively and to find new applications for our adhesives. We develop our marketing strategies at both the global and regional level. We then implement the measures derived at the local level. In the case of the private consumer, we mainly use classic media advertising with complementary promotional and support activities at the point of sale. We serve professional craftsmen and industrial customers primarily through our Sales organization. This offers technical advice, product demonstrations and training courses and also organizes appearances at industrial fairs. Much of our marketing activity is aligned to our strong, internationally established brands as key components in our service offering.

Recipient of the Walmart Sustainability Award for a second year running.

Sustainability

Maintaining a balance between economic success, protection of the environment, and social responsibility has been fundamental to our corporate culture for decades, and this is reflected in our corporate values. Our pursuit of sustainability is both long-term and entrepreneurial in nature, covering all of our activities throughout the value chain. Having invested many years of focused effort in the cause of sustainable development, we have built up an excellent reputation as a company with globally leading positions in this arena. And we are determined to remain in the vanguard of sustainability. The foundation for this is provided by our 48,000 employees around the world, in whose minds the principles of sustainable development are firmly anchored, guiding their attitudes and actions. Our corporate values play a key role in this regard. They provide orientation for our daily decision-making and are therefore the basis for long-term corporate success rooted in clear value concepts.

We are convinced that sustainable business practices will contribute to the successful pursuit of our strategic priorities and thus to the long-term growth of our company. Our insistence that each new product must combine high quality with responsibility toward people and the environment results in more efficient products and improved technical solutions. Sustainability is therefore a key innovation driver, encouraging us to achieve our full business potential. With our decades of experience in sustainable development, we are able to offer our customers and consumers solutions that are fit for the future and to position ourselves as a leading partner in the areas of competence within which we operate. Internally, responsible and sustainable business practices strengthen both the identification of our employees with the company and their motivation. Our sustainability credentials are also bound to become increasingly important in the competition for new talent in the recruitment market.

Once again in 2010, our progress and performance with respect to sustainable development impressed a range of external experts, as reflected in various global and national sustainability ratings. For example, we are present in the Dow Jones Sustainability World and in the Dow Jones Sustainability Europe indexes, again being named Sustainability Leader and the only company present in the Nondurable Household Products market sector. Our inclusion in the FTSE4Good index was also confirmed, and Bank Sarasin has updated Henkel's sustainability profile, confirming the company's rating in the best category ("high").

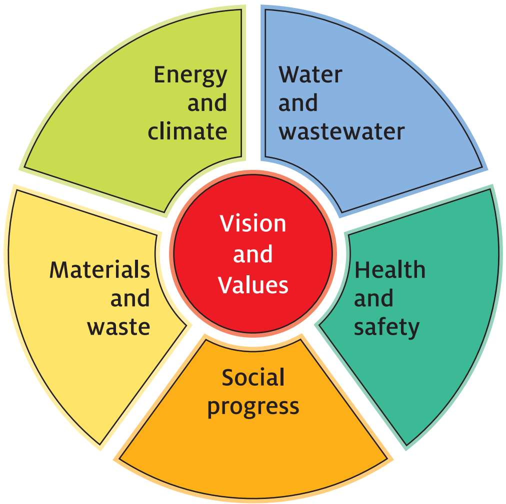
Within the German Best Brands ranking, Henkel was declared Best Sustainability Brand by the magazine *Wirtschaftswoche* in association with the Markenverband, Germany's brands association. The Canadian media company Corporate Knights Inc. once more included Henkel in its ranking of the world's 100 most sustainable companies from the Morgan Stanley Capital Investment World Index. And Henkel was again recognized with inclusion in the ranking of the World's Most Ethical Companies compiled by the Ethisphere Institute and *Forbes Business Magazine*.

It is particularly gratifying when our customers acknowledge our achievements in this field. Walmart, for example, honored Henkel with the Walmart Sustainability Award for the second year in a row, identifying us as the supplier that, seen globally, has made the most significant contribution to sustainability.

Alignment and focus

We systematically focus all our activities throughout the value chain on the challenges of sustainable development as they relate to our operations. We have grouped these sustainability challenges in five overarching focal areas: energy and climate, water and wastewater, materials and waste, health and safety, and social progress. The global challenges of sustainable development are continuing to increase as a result of world population growth, rising standards of living and consumption. Worldwide, growth and quality of life must be decoupled from resource consumption and emissions. Our contribution as a company is to develop innovative products and processes that consume fewer resources while still offering the same or better performance.

It is therefore both our duty and our desire to ensure that all new products contribute to sustainable development in at least one of the five focal areas we have defined. Hence we concentrate our efforts on innovations that combine product performance and quality with responsibility toward people and the environment, endeavoring to properly and effectively convey the importance and the added value of these advancements to our customers and consumers. To this end, we use a number of communication vehicles, ranging from direct product advertising to detailed information provided in the form of newsletters and online platforms, or at special events.



We have categorized the challenges arising from sustainable development in five focal areas.

The fact that the company and its brands are aligned to the key challenges of our age provides an important basis for the credible implementation of our sustainability strategy in the marketplace. And through our visible dedication, we are able to strengthen our brands, our corporate reputation and our global market positions.

Objectives and progress achieved

On the basis of the improvements made up to 2007 in occupational health and safety, resource conservation and emission reduction, at the beginning of 2008 we defined the following targets for the Group leading up to 2012:

- To reduce energy consumption per ton of output by a further 15 percent.
- To reduce water consumption per ton of output by a further 10 percent.
- To reduce waste per ton of output by a further 10 percent.
- To reduce occupational accidents per million hours worked by a further 20 percent.

Thanks to the high level of commitment of our employees, we were already able to achieve the targets for our production sites by 2010. We are convinced that the advances in both resource efficiency and cost effectiveness will also make an important contribution toward achieving our 2012 financial targets. We have initiated the process of defining new sustainability targets for the coming years.

Sustainability performance 2007 to 2010

Environmental indicators per ton of output

Energy consumption	–21 %	↘
Water consumption	–26 %	↘
Waste footprint	–24 %	↘
Occupational accidents[1]	–29 %	↘

[1] Per million hours worked.

By optimizing our own production processes and our value chains, we – together with our partners – make relevant contributions to climate protection. For example, many of our products help our customers and consumers to save energy. These include adhesives and sealants, and also laundry and home care products that are able to unleash their cleaning power at low temperatures. With high-quality sealants, it is possible to save up to 1,000 times more in emissions over the lifetime of a window than originally caused by the manufacture of those sealants.

Appropriate metrics need to be developed in order to communicate these contributions in a persuasive and credible manner. Keen to drive progress in this arena, we were involved in the Product Carbon Footprint pilot project with products from all three of our business sectors, and are participating fully in the related national and international discussions.

We participated in the "Product Carbon Footprint" pilot project in Germany with products from all three of our business sectors.

Organization

The Henkel Management Board bears overall responsibility for our sustainability strategy and objectives, and hence the pursuit thereof within the corporation. A Sustainability Council steers our global sustainability activities in collaboration with the individual business sectors and functions, and our regional and national affiliated companies.

By joining the United Nations Global Compact in July 2003, we also publicly underscored our commitment to respect human rights and fundamental labor standards, to promote environmental protection and to work against all forms of corruption. Our understanding of socially responsible behavior has been specified and communicated to our employees throughout the entire Group in our Code of Corporate Sustainability and our Code of Conduct. From these codes are derived our more detailed internal standards governing safety, health and environmental protection, our social standards and our Group purchasing standards. Compliance with these rules and requirements is regularly monitored throughout the Group by internal audits performed at our production and administration sites, and also – increasingly – audits at our toll manufacturers and logistics centers. In addition, Henkel companies have their management systems externally certified. As of the end of 2010, 71 percent of our production volume was generated at sites which have obtained certification to international environmental management standard ISO 14001.

As a responsible corporate citizen, Henkel provides financial aid for numerous projects aligned to social needs, the environment, education, science, health, sport, art and culture. In 2010, the total allocation was 2.9 million euros. Forty percent of this sum was entrusted to our MIT initiative (Make an Impact on Tomorrow), through which we have been supporting the volunteering activities of our employees and retirees since 1998. In 2010, we provided aid to MIT projects in 72 different countries. In addition to cash donations, we also support projects with in-kind and product donations, as well as granting the volunteers paid time off from work.

Stakeholder dialogue

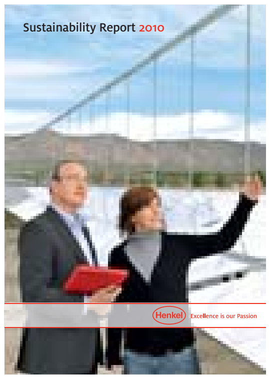
Viable solutions promoting sustainability can only be developed in dialogue with all the relevant social groups. These include our employees, shareholders, customers, suppliers, civil authorities, politicians, associations, governmental and non-governmental organizations, academia and the public at large. We view the dialogue with our stakeholders as an opportunity to identify the needs of our different markets at an early stage and to define the directions which our activities should take. Our dialogue with various stakeholders enables us to access new ideas for our company, which flow continuously into our strategy development and reporting.

We deploy a wide range of communication instruments in order to meet the specific information requirements of our stakeholders. More details and background reading on the subject of sustainability can be found in our SR Sustainability Report. With this, we document the high priority assigned to the pursuit of sustainable development by our company, at the same time satisfying the reporting obligations laid down in the United Nations Global Compact.

We regard the promotion of sustainable consumption as a key responsibility in the coming years. This requires not just the development of appropriate products, but also political support and collaboration with consumers. We therefore strive continuously to raise awareness of this issue among actors at all levels through our involvement in associations, working groups and at conferences, by engaging in a dialogue with politicians and non-governmental organizations, and through product communication.

In addition, we participate in national and international initiatives, for example in the World Business Council for Sustainable Development (WBCSD) and in the Consumer Goods Forum founded in 2009. Thanks to our many years of experience in sustainable business, we find we are much valued as partners in such collaborations.

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



Detailed information and background reading on the subject of sustainability can be found in our Sustainability Report which is available in both printed and online form.

Laundry & Home Care

- Organic sales growth of 1.5 percent
- Adjusted operating profit improved by 6.2 percent to 562 million euros
- Adjusted return on sales increased by 0.2 percentage points to 13.0 percent
- Return on capital employed (ROCE) up 1.6 percentage points to 21.2 percent
- Economic value added (EVA®) further improved to 286 million euros

Innovations 2010

Persil Gold Plus Cold Active

Full laundry performance in stain removal even in cold water – that's the promise of Persil Gold Plus Cold Active to consumers in Eastern Europe.

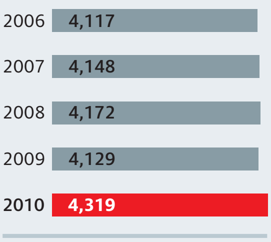
Dac Disinfectant

Formulated for the markets of North Africa and the Middle East, this instant-action cleaner offers up to 24 hours of protection against household bacteria.

Bref / WC Frisch Kraft-Aktiv

The first WC rim block with four active pearls. With three different fragrances and an innovative combination of powerful ingredients for WC freshness.

Sales
in million euros



Key financials[1]

in million euros	2009	2010	+/–
Sales	4,129	4,319	4.6 %
Proportion of Henkel sales	30 %	29 %	–1 pp
Operating profit (EBIT)	501	542	8.2 %
Adjusted operating profit (EBIT)[2]	530	562	6.2 %
Return on sales (EBIT)	12.1 %	12.6 %	0.5 pp
Adjusted return on sales (EBIT)[2]	12.8 %	13.0 %	0.2 pp
Return on capital employed (ROCE)	19.6 %	21.2 %	1.6 pp
Economic value added (EVA®)	232	286	23.5 %

pp = percentage points
[1] Calculated on the basis of units of 1,000 euros, figures commercially rounded.
[2] Adjusted for one-time charges/gains and restructuring charges.

Top brands and product groups

Heavy-duty detergents; fabric softeners; laundry conditioning products; dishwashing products; all-purpose cleaners; scouring agents; floor and carpet care products; bath and WC cleaners; glass cleaners; kitchen cleaners; specialty cleaning products; air fresheners and insecticides for household applications.

Sales development[1]

in percent	2010
Change versus previous year	4.6
Foreign exchange	3.5
After adjusting for foreign exchange	1.1
Acquisitions/divestments	–0.4
Organic	1.5
of which price	–4.2
of which volume	5.7

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

Economic environment and market position

The world market for laundry and home care products in 2010 represented a volume of around 94 billion euros. The markets of relevance to Henkel were characterized by strong price and promotional competition in 2010, leading to substantial decreases in selling prices. As a result of the significantly dampened consumer climate compared to 2009, the volume increases registered were not quite enough to offset the decline in pricing levels, with the result that, overall, the relevant markets were slightly recessive during the year under review.

In the countries of Southern Europe, which were particularly impacted by unemployment and the consumer squeeze, and also the USA and large parts of Eastern Europe, the development of our markets was significantly weaker than in the previous year. By contrast, Germany and a large portion of the Africa/Middle East region demonstrated robustness. Generally, the underlying conditions were challenging, particularly with respect to higher-quality laundry and home care products. Nevertheless, branded consumer goods manufacturers were actually able to gain market share from the private label suppliers through a combination of high advertising and promotional activity and lower pricing levels. Hence, these market share gains were made at the cost of gross margins which were burdened not only by said price erosion, but also by substantially higher raw material costs.

In Western Europe, the market for laundry and home care products declined slightly in the year under review. Nevertheless, we succeeded in further expanding our market position with particular successes in the German-speaking countries. By contrast, the market in North America declined substantially, due to increased unemployment and a higher propensity among consumers to save, to which manufacturers responded with price cuts. However, we were able to maintain our market shares. The market in Eastern Europe expanded only slightly due to the ongoing effects of the global economic and financial crisis, and a competitive environment that was likewise very aggressive on prices. Despite these difficulties, however, we succeeded in increasing market share in the region. Africa/Middle East once again posted double-digit market growth on the back of our already strong market position, enabling us to further expand market share there as well. The market in Latin America remained at the level of the previous year, with significant price decreases being offset by volume expansion. Here, we were able to consolidate our market position. The Asian market was overshadowed by tough price competition in India, and as a result was also recessive overall.

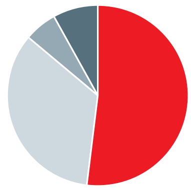
Business activity and strategy

The business sector is globally active in the laundry and home care branded consumer goods business. The *Laundry* business includes not only heavy-duty and specialty detergents but also fabric softeners, laundry performance enhancers and laundry care products. The portfolio of our *Home Care* segment encompasses hand-dishwashing and machine-dishwashing products, cleaners for bath and WC applications, and household, glass and specialty cleaners. We also have a market presence in selected regions with air fresheners and insecticides for household applications.

Our aim is to continue generating profitable growth through the organic expansion of our continuing operations. We therefore intend to pursue both sustainable market share gains and further margin improvements. Based on our profitable positions in Western Europe and North America, we plan to further expand the share of sales accounted for by our growth regions, particularly Eastern Europe and Africa/Middle East. We want to harness their dynamic sales potential, increase our market shares and raise profitability to the higher level of the more mature regions.

Innovations that offer the consumer added value provide the basis for our strategy of profitable growth. Last year showed once again that the launch of successful products can make a positive contribution, particularly under difficult economic and market conditions. It therefore remains our objective to maintain our high innovation rate of around 40 percent and to retain and extend the innovation leadership positions that we enjoy in our markets.

World market for laundry and home care products: approx. 94 billion euros



- 53 % Laundry detergents
- 35 % Cleaning products
- 6 % Air fresheners
- 6 % Insecticides

+1.5 %
organic sales growth in a slightly declining world market.

40 %
innovation rate.

Marketed in Italy, Dixan Igiene e Purezza (hygiene and purity) gets the wash hygienically clean even at low temperatures.

Through our ability to consistently and efficiently control the entire innovation process, we are able to quickly identify and respond to consumer trends and convert these into new products. In addition, we regularly review our existing brand and market segments, reacting quickly to changing consumer demand patterns by adapting our product portfolio. By prioritizing product categories and controlling our portfolio on the basis of "brand clusters"[1], we can accurately allocate our market investments over the medium term to those brands and segments offering the greatest potential, enabling us to achieve disproportionate growth and profitability. Our top ten brand clusters account for 81 percent of our sales, illustrating the degree to which the strengths of our international brand concepts and those of our well established local brands are being optimally utilized.

Sales and profits

Sales rose by 4.6 percent to 4,319 million euros in the year under review. In organic terms – i.e. after adjusting for foreign exchange and acquisitions/divestments – sales growth came in at 1.5 percent.

Fiscal 2010 saw us achieve strong volume growth of 5.7 percent. With manufacturers of branded consumer goods focusing on volume and market share gains, the competitive environment was characterized by very aggressive pricing and elevated promotional intensity in the year under review. This led to a decline in our average prices of 4.2 percent, although volume gains more than made up for this by a considerable margin.

Vernel with innovative freshness pearls makes the wash pleasantly soft and, thanks to a particularly long-lasting freshness fragrance, keeps that fresh-washed feeling going the whole day through.

In regional terms, the main sales growth was achieved in Europe and Africa/Middle East, the latter posting a double-digit organic increase. The expansion in sales in Saudi Arabia and the Maghreb region was particularly pronounced. In Western Europe too, we recorded a significant increase, achieving the biggest revenue rise since 2007. The main contributors to this positive development were Germany and France, with Spain also improving despite its difficult general economic situation. Due to the appreciable decline in prices, the growth rates achieved in Eastern Europe did not match those of past years, although there too revenue also increased. In North America, the combination of an aggressive competitive environment and consumer reluctance resulted in a substantial decline in sales. Developments in Latin America and Asia-Pacific, on the other hand, were only slightly recessive.

Operating profit (EBIT) increased by 8.2 percent to a record high of 542 million euros. After adjusting for foreign exchange, the rise was 4.7 percent. We were able to achieve this positive result despite the continuing pressure on gross margin arising from increasing material prices and decreasing selling price levels. Reflected in this improvement in operating profit are positive volume effects and successful measures introduced to reduce cost and enhance efficiency, enabling us to more than compensate for these adverse developments. Keen to support growth, we maintained our advertising spend at the level of the previous year. Return on sales increased to 12.6 percent, an improvement of 0.5 percentage points. Adjusted return on sales also rose to a new high of 13 percent. Due to the rise in operating profit (EBIT) and a very low net working capital figure, return on capital employed (ROCE) increased by 1.6 percentage points to 21.2 percent. Economic value added (EVA®) improved from 232 million euros in 2009 to 286 million euros in the year under review.

Business segments

Within the *Laundry Care* business, it was our heavy-duty detergents and fabric softeners that registered the strongest growth in the year under review. In Western Europe we were able to increase our market share with respect to heavy-duty detergents despite the difficult trading conditions and intense competition. The main contributor was our biggest brand, Persil, and especially the liquid detergents. Henkel was quick to recognize the growing demand for hygienic cleanliness, especially where low washing temperatures were applied. Consequently, we have successfully launched our innovative Hygiene range for heavy-duty detergents in Europe. In Italy, for example, this takes the form of Dixan Igiene e Purezza (hygiene and purity). Also successful were the brands Spee and Weisser Riese. These contributed to the achievement of above-average growth rates, with the new Intensive Color powder and gel variants offering active color power for radiant results. In Western Europe, Eastern Europe and Israel, we supported the positive development of our fabric softener brands Vernel, Silan and Soad through the introduction of new variants with innovative freshness pearls.

Eastern Europe also saw the launch of Persil Gold Plus Cold Active, which develops its full laundry power right at the beginning of the wash cycle even in cold water. This product not only helps to remove soil and dirt but also to protect the environment due to the fact that less energy is required.

[1] A brand cluster comprises several individual local brands which, in terms of their positioning, are comparable to a large international brand. By adopting this approach, we are able to generate high synergies in our marketing mix.

And Persil Gold Plus Cold Active also contains freshness pearls from Silan, so that in addition to performing well even in cold water, it also ensures that a fresh fragrance is released as the garment is worn through the day. In large parts of the Africa/Middle East region, we have introduced heavy-duty detergent powders offering lower dosages for the same performance. In addition to the obvious positive ecological effects, this also means that we can reduce packaging and logistics costs.

The organic growth generated by the *Home Care* business was primarily due to our dishwashing detergents and WC products. In the case of our machine-dishwashing products, Somat 9 and Somat Perfect Gel made a particularly important contribution to the encouraging performance achieved. Our hand-dishwashing products likewise registered significant growth rates. In Eastern Europe, we launched a new hand-dishwashing product onto the market under the Pur brand which, with its particularly viscous and extra-strong “Pure Max Gel Formula” is able to remove even the toughest dirt based on just small dosages. Also launched onto the market under the brands Pril and Pur was a new generation of hand-dishwashing products which, featuring “Power Crystals,” ensure the fast and easy removal of stubborn soil. The special formulation means that the dishwashing product in the sponge retains its cleaning power up to four times longer than conventional products. For the brand Der General, we have also developed an all-purpose cleaner which, thanks to reduced foaming and a fast-drying formula, ensures a streak-free cleanliness with a radiant shine.

We achieved positive sales growth with our WC products in both Western and Eastern Europe following the launch of our new WC product Bref / WC Frisch Kraft-Aktiv, which is marketed in Germany under the brand WC Frisch. This rim block mounted in a modern and discreet bracket offers four active components.

In North America, we introduced products under the Soft Scrub brand designed for gentle surface cleaning in the bathroom and kitchen. They make cleaning of all surfaces easier and can be used to remove a wide range of impurities.

Our new cleaner Dac Disinfectant offers superior disinfection performance for our markets in North Africa and the Middle East. It works immediately and then carries on for up to 24 hours, protecting against household bacteria while also emitting a pleasant, fresh fragrance.

Capital expenditures

Our investments in the year under review were primarily geared to innovations as well as to optimizing our production and distribution processes. We also invested in the field of plant safety, with environmental and fire protection systems providing the focus. Overall, we spent 83 million euros on property, plant and equipment, compared to 151 million euros in the previous year. This decrease in 2010 is due to a reduced investment requirement following optimizations of our production network and the completion of a number of major projects in the recent past.

Outlook

We expect the markets of relevance for us to stagnate in 2011. We anticipate that the market environment in North America will remain difficult. The situation in Western Europe is likely to be similar, with the market declining further and intense competition. We expect our growth regions to show a moderate increase in revenues.

Against this background, we intend to further expand our positions in 2011 and to once again outperform our relevant markets in terms of organic sales growth. Through ongoing cost reductions and increasing efficiency, we expect a further increase in adjusted return on sales versus the prior-year figure (2010: 13.0 percent), despite increasing material prices.

We see opportunities arising from a revival in demand in Western Europe and North America, a rapid return to dynamic growth in Eastern Europe and the successful introduction of further innovations.

We could be adversely affected in the event of a worsening of the macro-economic conditions with rapidly growing unemployment, higher taxes and levies, and also the possibility of strikes dampening the consumer climate. Added to this is the risk of a rapid increase in material prices, the extent of which is uncertain, depending on the demand situation prevailing on the raw material markets and also the general world economic situation.

Somat 9 and Somat Perfect Gel made a particularly positive contribution to the encouraging performance of our machine-dishwashing products.

Our Soft Scrub products marketed in North America gently remove many kinds of impurity from surfaces in the bathroom and kitchen.

Cosmetics / Toiletries

- Organic sales growth of 4.8 percent
- Adjusted operating profit improved by 12.4 percent to 436 million euros
- Adjusted return on sales increased by 0.4 percentage points to 13.3 percent
- Return on capital employed (ROCE) up 1.9 percentage points to 20.1 percent
- Economic value added (EVA®) further improved to 207 million euros

Innovations 2010

Schwarzkopf Perfect Mousse

The first permanent colorant in foam form from Schwarzkopf. With no ammonia, it's as easy to apply as a shampoo.

Osis

New Osis styling products to inspire consumers and hairdressers. Under gentle pressure, the gloss powder Shine Duster transforms into a soft cream.

Right Guard Total Defense 5

First anti-transpirant from Right Guard, with unique five-fold effect and patented power stripe technology for up to 48 hours of protection from body odor.

www.perfectmousse.com

www.schwarzkopf-professional.com/products/styling/osis

www.rightguard.com

Sales
in million euros

2006	2,864
2007	2,972
2008	3,016
2009	3,010
2010	3,269

Key financials[1)]

in million euros	2009	2010	+/–
Sales	3,010	3,269	8.6 %
Proportion of Henkel sales	22 %	22 %	–
Operating profit (EBIT)	387	411	6.1 %
Adjusted operating profit (EBIT)[2)]	387	436	12.4 %
Return on sales (EBIT)	12.9 %	12.6 %	–0.3 pp
Adjusted return on sales (EBIT)[2)]	12.9 %	13.3 %	0.4 pp
Return on capital employed (ROCE)	18.2 %	20.1 %	1.9 pp
Economic value added (EVA®)	164	207	25.8 %

pp = percentage points
[1)] Calculated on the basis of units of 1,000 euros, figures commercially rounded.
[2)] Adjusted for one-time charges/gains and restructuring charges.

Top brands and product groups

Schwarzkopf Dial Fa

Hair shampoos and conditioners; hair colorants; hair styling products; soaps; shower gels, body wash and bath products; deodorants; skin creams; skin care products; oral care products; hair salon products.

Sales development[1)]

in percent	2010
Change versus previous year	8.6
Foreign exchange	3.9
After adjusting for foreign exchange	4.7
Acquisitions/divestments	–0.1
Organic	4.8
of which price	–0.9
of which volume	5.7

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

Economic environment and market position

The world cosmetics market of relevance to us was valued in 2010 at 135 billion euros, with no significant signs of recovery and with large sections declining.

Our core markets in Western Europe and North America continued to contract due to the difficult economic conditions. In particular, the market for retail hair cosmetics diminished due to heavy price pressures accompanied by intense promotion. Despite the challenging market environment we succeeded in continuing the upward path of recent years, again generating disproportionate growth. Supported by positive developments in our Western European hair business, we achieved significant market share increases and were able to further expand our leading market position. In North America, we succeeded in expanding our position in our core business.

The markets in the growth regions of Africa/Middle East, Latin America and Asia-Pacific underwent positive development. By contrast, the growth dynamics in the markets of Eastern Europe tailed off substantially, finishing at levels below those of previous years in our categories. Nevertheless, we were able to further expand our business in all regions, generating disproportionate growth with significant market share gains.

In the hair salon segment, customer reluctance emanating from the economic crisis continued, leading to a fall in the value of the market in the mid single-digit range. However, our hair salon business Schwarzkopf Professional bucked the market trend, generating further growth and strengthening its position as the global number three in the professional hairdressing sector.

Around the world, the Cosmetics/Toiletries business sector occupies leading positions in its relevant markets and was again able to substantially expand its market shares.

Business activity and strategy

The Cosmetics/Toiletries business sector is active in the branded consumer goods segments of hair cosmetics, body care, skin care and oral care, and in the professional hair salon business.

Expansion in the branded consumer goods business in Western Europe and North America is focused on further increasing market share. To this end, we pursue a consistent, pro-active innovation strategy accompanied by strict cost management so we can step-up our market investments and increase profitability. In Eastern Europe, the Middle East and other specific growth markets, we further drive business by developing new national markets and accelerating portfolio expansion.

In the hair salon segment, we continue to pursue a strategy of globalization, generating growth momentum particularly in Asia, Latin America and the Middle East.

Organic development is at the center of our growth strategy. We drive this forward by effectively leveraging our innovation leadership in a highly competitive market environment. The ongoing development of successful innovations and their rapid international launch are thus key factors in our success. Also decisive in contributing to organic growth are the regional expansion of our leading brands and the establishment of consumer-relevant offerings in all pricing segments. We regularly analyze our businesses and brands as part of our pro-active portfolio management approach.

In our branded consumer goods business, our focus is on the international expansion of our core segments of Hair Cosmetics, Body Care, Oral Care and Skin Care. Through targeted portfolio management and the associated marketing measures aimed at strengthening our top brands, our ten largest brands again grew substantially faster than the overall portfolio in 2010, contributing 89 percent to the business sector's revenues. In addition to strengthening our brand equities, we focus par-

World market for cosmetics and toiletries: approx. 135 billion euros

- 37 % Skin care
- 30 % Hair cosmetics and salon products
- 22 % Body care
- 11 % Oral care

+ 4.8 %
organic sales growth within a stagnating world market.

>40 %
innovation rate.

Schauma Push-Up Volume.

ticularly on the growth potential available in our key accounts. We also endeavor to drive forward our hair salon business on the basis of efficient sales and distribution structures backed up by a steady flow of innovations. And we are constantly looking to develop new regional potential on a selective basis.

Looking forward, we intend to continue our pro-active innovation strategy and to consistently further strengthen our brand equities as a means of generating dynamic, profitable growth. Our current innovation rate is in excess of 40 percent. And we are developing additional growth potential through expansion of strategic partnerships with our customers.

Sales and profits

Having achieved an excellent sales growth rate of 8.6 percent in 2010, the Cosmetics/Toiletries business sector successfully continued the upward trend of recent years. Adjusted for acquisitions/divestments and foreign exchange, organic sales increased by 4.8 percent. These results mean that, once again, we outperformed the markets of relevance to us, leading to a further substantial expansion in our global position.

The basis for these gratifying developments was provided by our ongoing innovation offensive and a substantial increase in volumes sold. The strong price competition and high promotional activities encountered led to a slight decrease in selling price levels.

We succeeded in increasing sales in all our growth regions, achieving double-digit rates of increase in Africa/Middle East, Latin America and Eastern Europe. We also posted above-average growth in Asia-Pacific. At the same time, we maintained our momentum in Western Europe, with a particularly strong rise in revenue being achieved in Germany. Also encouraging was the high level of performance shown in the mature markets of Asia. In North America, however, sales fell slightly below the level of the previous year in a difficult market environment, despite market share gains.

We posted significant increases across all regions in the branded consumer goods business. And our hair salon business exceeded the level of the previous year and is heading for growth despite a persistently recessive market environment.

Syoss hair colorant.

We consistently pursued our profitable growth strategy through 2010. The improvement in gross margin and the cost reductions achieved were, in part, re-invested in the market through an increase in our marketing expenditures in order to generate further growth impetus. Operating profit (EBIT) rose by 6.1 percent to 411 million euros, and by 12.4 percent to a new record of 436 million euros after adjusting for one-time gains and restructuring charges. Adjusted return on sales increased beyond the 13 percent mark for the first time, reaching a new high of 13.3 percent. The same applies to return on capital employed (ROCE), which improved due to developments on both the earnings and capital sides by 1.9 percentage points to 20.1 percent. Economic value added (EVA®) rose from 164 million euros in the previous year to 207 million euros in the year under review. In addition to the gratifying developments in earnings, appreciable further improvements in net working capital relative to sales contributed markedly to this increase.

Business segments

In our *Hair Cosmetics* business, we succeeded in achieving a substantial organic increase in sales, enabling us to expand our market shares to new record highs. This was due in particular to the successful launch of a series of top innovations in all segments. The global market launch of Syoss in a number of additional product categories made a substantial contribution in this regard, with colorants among the other major growth drivers.

We were able to increase market share to new record levels in the *Hair Care* business. Syoss – supported by the new product variants Moisture Intensive Care and Anti-Dandruff Control – made a particularly important contribution to this improvement, accompanied by a range of other successful market launches. The hair repair brand Gliss Kur defended its market position through the globally successful introduction of the nutritional care line Shea Cashmere and new hair treatment concepts. And Schauma benefited significantly from the successful launch of the lines Push-Up Volume, Intensive Anti-Dandruff and Silk Comb.

We also succeeded in raising market share to new highs in the *Hair Colorants* business. Particularly responsible for this was a series of international product launches. These included the highly successful Syoss Color and our innovative product Perfect Mousse, the first permanent, ammonia-free hair colorant in foam form to hit the European market. Palette was able to further strengthen its market leadership in Europe through the relaunch of Palette ICC, the first caring color cream from Palette with natural gelée royale, and the launch of Palette Color & Gloss. Brillance also generated new market impetus through the addition to its range of intensive red and cool blonde shades.

The *Hair Styling* business likewise again set a new record in market share. Drei Wetter Taft, Europe's number one in styling, underwent an international brand relaunch, as well as profiting from the introduction of new variants in the form of Taft Volume for dry and dull hair, and Taft Ultra with argan oil. The international launch of a styling range under the Syoss brand also contributed to growth. The trend styling brand Got2b was able to gain market share through, in particular, the successful introduction of the heat protection product Got2b Guardian Angel.

The focus of the *Body Care* business was on innovations and further product launches under the brands Fa, Dial and Right Guard. The Fa line saw the arrival of the Active Pearls series, with growth momentum in the men's grooming segment coming from the launch of Fa 3D Protect. The innovation program was rounded off with Fa Mystic Moments. In North America, we launched one of the region's most successful body care innovations of 2010 in the form of the Dial NutriSkin body care series. A further major event in North America was the introduction of the deodorant innovation Right Guard Total Defense 5. Endeavoring to further develop the global market for men's products, we also launched the established US brand Right Guard in Germany and Eastern Europe. And within just a short time, it was able to establish its position in a challenging competitive environment.

In the *Skin Care* business, the focus remains on the development of innovative anti-aging products. The introduction of Diadermine Dr. Caspari Novagen – the first care product with plant-based stem cells – contributed to the enhancement of Diadermine's position in the anti-aging segment.

We achieved good results in the *Oral Care* business with our new toothpaste variants Theramed 2in1 16h Xtra Fresh and Theramed 2in1 Power Clean & White.

The *Hair Salon* business likewise contributed to our growth dynamics. In a persistently difficult market environment, we again succeeded in expanding our position as the world number three. With innovative new products, we were able to win a number of new customers and revive business with existing clients. In the styling segment, we expanded our top brand Osis with new and innovative products such as the cream wax Flexwax, the styling powder Osis Shine Duster and the volume serum Body Me. In the hair care segment, we introduced the Bonacure Smooth Shine series. Our Essensity range was also further augmented following the successful relaunch of the ammonia-free colorant series with a completely new line of care and styling products.

Capital expenditures

The emphasis of our investment activity in the year under review was on optimizing our production structures and processes. As in the previous year, we spent 40 million euros on property, plant and equipment, investing inter alia in capacity expansion and increased efficiency in the production of high-volume articles.

Outlook

We expect conditions in the markets of relevance to us to remain difficult in 2011, leading to market stagnation. The mature markets are unlikely to show any significant signs of recovery, with development remaining sluggish. However, we expect further growth impetus from the emerging economies of Eastern Europe, Latin America, Africa/Middle East and Asia-Pacific.

We want to generate profitable growth, despite the difficult underlying trading conditions. Once again we intend to outperform our relevant markets in terms of organic growth, and expect an increase in adjusted return on sales versus the prior-year figure (2010 figure: 13.3 percent), despite further increasing material prices.

We see good prospects in the further expansion of our market positions in Europe and North America resulting from the continued diligent pursuit of our innovation offensive. There are also opportunities in the ongoing utilization of the potential offered by our growth regions.

Risks lie in the possibility of a significant deterioration in the consumer climate and a further increase in competition in our markets, with promotional pressures, price wars and high advertising expenditures persisting. Unexpectedly high rises in raw material and packaging prices could also increase the pressure on our margins.

Dial NutriSkin.

Essensity hair colorant.

Adhesive Technologies

- Organic sales growth of 11.8 percent
- Adjusted operating profit improved by 85.5 percent to 938 million euros
- Adjusted return on sales increased by 4.7 percentage points to 12.8 percent
- Return on capital employed (ROCE) up 7.7 percentage points to 12.5 percent
- Economic value added (EVA®) improved by 616 million euros to 73 million euros

Innovations 2010

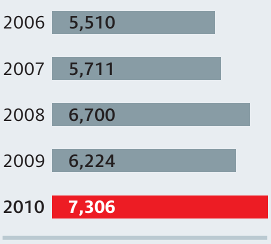
Loctite Power Easy
This odorless and solvent-free instant adhesive bonds an array of different materials quickly and firmly yet avoids the problem of instant skin contact adhesion.

Terophon HDF
A vibration-damping material that minimizes in-vehicle noise. Allows thinner sheets and lighter materials to be used in automobile production.

Loctite 3090
The first instant adhesive with gap-filling properties: it combines high bonding power with fast curing on a wide range of materials.

www.loctiteproducts.com
www.teroson.com
www.loctite.com

Sales
in million euros



Key financials[1)]

in million euros	2009	2010	+/–
Sales	6,224	7,306	17.4 %
Proportion of Henkel sales	46 %	48 %	+2 pp
Operating profit (EBIT)	290	878	>100 %
Adjusted operating profit (EBIT)[2)]	506	938	85.5 %
Return on sales (EBIT)	4.7 %	12.0 %	7.3 pp
Adjusted return on sales (EBIT)[2)]	8.1 %	12.8 %	4.7 pp
Return on capital employed (ROCE)	4.8 %	12.5 %	7.7 pp
Economic value added (EVA®)	–543	73	>100 %

pp = percentage points
1) Calculated on the basis of units of 1,000 euros, figures commercially rounded.
2) Adjusted for one-time charges/gains and restructuring charges.

Top brands and product groups

Adhesive and sealant systems, and surface treatment products for industrial applications in the automotive, packaging, aircraft, electronics, durable goods and metal sectors, and for maintenance, repair and overhaul applications; adhesives and sealants for consumers and craftsmen and for applications in the home, school and office.

Sales development[1)]

in percent	2010
Change versus previous year	17.4
Foreign exchange	6.3
After adjusting for foreign exchange	11.1
Acquisitions/divestments	–0.7
Organic	11.8
of which price	–0.1
of which volume	11.9

1) Calculated on the basis of units of 1,000 euros.

Economic environment and market position

Following the seriously adverse effects of the economic and financial crisis of 2009, the business environment underlying our sales markets recovered appreciably in 2010. Economic output accelerated very quickly in the first half of the year, although growth slowed during the six months that followed. In the course of this revival, manufacturing industry expanded significantly faster than private consumption. Substantial production decreases in the steel, automotive and electronics industries in 2009 were reversed in 2010 with each of these sectors recording significant growth. Mechanical engineering also benefited from the economic revival, exhibiting a strong rate of recovery. By contrast, the consumer-related packaging industry underwent comparatively moderate expansion, and the construction industry declined. All regions were able to appreciably increase economic output compared to the previous year. The upward trend was particularly strong in the growth regions while the rates of expansion encountered in the mature markets during the second half of the year tailed off somewhat.

Developments in our markets for adhesives, sealants and surface treatment technologies were mixed, although overall we registered growth in the mid single-digit percentage range. Thanks to our balanced business and regional portfolio and the launch of a number of new products, we were able to harness the market growth across its entire breadth, exceeding it in many segments. Our strong position in the emerging economies in particular supported the positive performance of the business sector. Overall, we were able to consolidate or even extend our leading positions globally, and in the individual regions as well.

In addition to the disproportionate increase in demand for adhesives in the growth regions, further salient trends are also expected to support growth of the adhesives market in the future. These include the constant need for ever greater energy efficiency and carbon emission reductions, which in turn will boost demand for sustainable products. Indeed, there are many adhesive applications in the field of renewable energies; and the increased use of light-weight construction and manufacturing materials also points to greater adhesive usage. In addition to growth in the already established spheres of application for adhesives and sealants, more and more new areas of use for these products are opening up, for example the manufacture of light-emitting diodes or the further inroads being made in drug delivery through the skin.

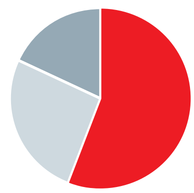
Business activity and strategy

The Adhesive Technologies business sector comprises five market and customer-focused strategic business units whose overriding remit is to create competitive advantages for our customers.

The *Adhesives for Consumers, Craftsmen and Building* business focuses on brandname products for private and professional users and the building and allied trades. We offer system solutions for each of these target groups based on four international brand platforms. We market our adhesive and correction products for the school and office under the Pritt brand. For household repairs, we offer advanced adhesive technologies under the Loctite brand. Do-it-yourselfers and craftsmen are able to put their trust in a wide range of solutions from the Pattex product portfolio, while professional craftsmen and construction companies enjoy the benefits of our products and systems for tiling, waterproofing and façade insulation marketed under the Ceresit brand.

The *Transport and Metal* business drives our activities involving major international customers in the automotive and metal processing industries. We offer our clients tailored system solutions and specialized technical services covering the entire value chain – from steel coating to final vehicle assembly. Through partnerships and collaborations with our customers, particularly in the early phase of product development, we are able to assist in the manufacture of innovative and sustainable products.

World market for adhesives, sealants and surface treatment products and systems



- 56 % Industry
- 26 % Building
- 18 % Consumers and craftsmen

+ 11.8 %
organic sales growth (world market: +5 %).

Rubber "germs" the size of a tennis ball bearing the slogan "I'm staying outside" deliver a clear yet humorous message to our customers that bacteria have no chance of survival in our new Multan lubricoolants.

www.henkelmultan.com

45 %
of sales achieved in our growth regions.

The customers served by our *General Industry* business are small and medium-sized manufacturers from a multitude of industries ranging from household appliance producers to the wind power sector. Our portfolio here encompasses Loctite products for industrial maintenance, repair and overhaul, plus a select range of sealants and system solutions for surface treatment applications. With our extensive distribution network, we are ready and able to help our customers increase their competitiveness with high-quality solutions.

The *Packaging, Consumer Goods and Construction Adhesives* business serves major customers as well as medium and small-sized manufacturers of the consumer goods and furniture industry. Following the integration of the National Starch businesses and the economies of scale that this has brought, we are in a position to successfully market a wide range of competitive solutions for standard and high-volume applications.

In the *Electronics* business, we offer our customers from the worldwide electronics industry a comprehensive portfolio of innovative high-tech adhesives and soldering materials for the manufacture of microchips and printed circuit boards.

Based on this business structure introduced in 2009, our sights are now set on generating profitable growth in the years to come.

We have identified our determination to sharpen our focus on the user expectations of our customers, the dynamic developments taking place in our growth regions – these already account for 45 percent of our sales – and faster development and market penetration of our innovations as the key growth drivers of the future.

Leveraging our extensive technology portfolio, we are constantly increasing our innovation rate. In 2010, we generated some 24 percent of sales with products launched in the last five years.

With the improved quality of our earnings having been substantially driven by major restructuring measures in the last few years, our focus in the future will be on improving our operational excellence. Having introduced a wide range of measures, we want to utilize our scale and further optimization potential to even better effect and with greater consistency in all areas of the value chain. This also means concentrating more on the strong, internationally known brands within our portfolio.

By pursuing these objectives, we intend to achieve market-leading positions offering high profitability in all our strategic business units.

Our ability to expand our market positions depends on our ability to differentiate ourselves from the competition. And we see our superior applications know-how as an important springboard in this respect. We can offer our customers unique service packages designed and assembled to meet their user expectations in full. Our solutions encompass not only the products themselves but also extensive user advice, support and training. Moreover, our size and international presence mean that we can offer these solutions to our customers worldwide, delivering exactly what they need quickly and reliably through a network of centralized and decentralized production centers.

We regularly review all the components of our portfolio against the long-term objectives of the business sector. As a consequence of this process, we divested a number of marginal activities in the period under review.

Sales and profits

With the market environment recovering, we were able to increase the sales of the Adhesive Technologies business sector by a substantial 17.4 percent to 7,306 million euros, 9.0 percent above the previous record level achieved in 2008. Organic growth also came in at a new high of 11.8 percent. With competition increasing, prices remained stable. Our growth of 11.8 percent was therefore exclusively volume-driven. In the mature markets of Western Europe and North America, we generated growth in the high single-digit percentage range following the market-driven decline of the previous year. Our growth regions posted disproportionate increases, with expansion overall in the double-digit percentage range. We achieved our highest growth rates in the Asia-Pacific region.

The measures introduced in 2009 helped us to significantly improve our cost structure and to better focus on the management of our sales and distribution activities. As a result, we increased gross margin – despite substantially higher material prices – and tripled operating profit to a new record of 878 million euros. Adjusted operating profit doubled in the year under review to 938 million euros. Compared to the previous year, return on sales rose by 7.3 percentage points to 12.0 percent, with the adjusted figure increasing by 4.7 percentage points to 12.8 percent. There was an appreciable improvement in return on capital employed

(ROCE) of 7.7 percentage points to 12.5 percent. Economic value added (EVA®) rebounded by 616 million euros to plus 73 million euros in the year under review, and net working capital as a percentage of sales once again showed an improvement compared to the previous year.

Business segments

The *Adhesives for Consumers, Craftsmen and Building* business performed well. Despite the persistently difficult situation encountered in the building sector, both our business with consumers and craftsmen and that with the construction industry contributed to growth. We registered significant increases compared to the previous year, particularly in North and Latin America, and in Africa/Middle East. Our newly developed system concept for do-it-yourself adhesives, through which we have expanded the Pattex brand, enjoyed great retail success. This concept involves offering a wide range of products under one brand in conjunction with an innovative approach to navigating the consumer through the retail shelves.

Following the adverse effects of the global economic and financial crisis, the *Transport and Metal* business performed particularly well in the year under review. Our continuous investment in research and development was again recognized with the PACE award for automotive components suppliers, as it had been in 2009. This year, we received the accolade for our innovative metal pretreatment system Aquence.

We also considerably increased sales in the *General Industry* business. All our regions contributed to the substantial growth achieved, led by Asia-Pacific and North America, with our business involving products for industrial maintenance, repair and overhaul under the Loctite brand performing a key role.

Sales of *Packaging, Consumer Goods and Construction Adhesives* also rose on the back of significant increases posted by the Asia-Pacific and Latin America regions.

Having experienced major declines in the previous year, our *Electronics* business benefited greatly from the recovery of the semiconductor industry. This segment generated the highest sales increase of all our strategic business units, with figures significantly above those of the previous year both with respect to our growth regions and our mature markets.

Capital expenditures

In 2010, we again prioritized investments aligned to the consolidation of our production capacities. In all, we spent 109 million euros on property, plant and equipment, compared to 135 million euros in the previous year.

Outlook

Looking at 2011 as a whole, we expect the markets of relevance to us to show average growth rates of 3 to 5 percent, which are below those of 2010. Once again, we anticipate that the emerging markets will develop faster than the mature markets.

We expect to see further increases in the prices for raw materials and packaging. As in 2010, supply shortages may occur in these categories due to capacity limitations among the manufacturers in these segments.

Our Liofol Academy has been set up to train the plant operators of sheet and film manufacturers. This benefits the entire flexible packaging value chain, for which our Liofol brand offers efficient and high-performance adhesives worldwide. The photo shows course participants examining a multi-layered transparent sheet which has just been laminated.

www.liofolacademy.com

Following an extremely successful 2010, we are aiming to continue driving profitable growth in 2011. Once again we intend to outperform our relevant markets in terms of organic sales growth, and because of the significant improvement in our cost structure attributable to the measures implemented in the last few years, we expect an increase in adjusted return on sales above that of the previous year (2010 figure: 12.8 percent).

We primarily see opportunities for our business development in expediting the launch of innovations and in the possibility that the market dynamics might be more positive than currently expected.

The main risks lie in the volatility underlying the general economic development of North America and Europe, and to some extent that of the growth regions as well. Price increases beyond current expectations and supply shortages with respect to raw materials could also hinder the achievement of profitable growth.

Risk report

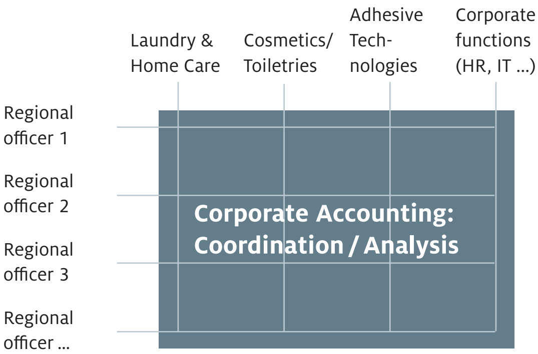
Risk management system

The *Risk Management System (RMS)* at Henkel is an integral component of the comprehensive planning, control and reporting regime practiced in the individual companies, in our business sectors and at corporate level. It encompasses the systematic identification, evaluation, management, documentation, communication and monitoring of risks. Risk control and monitoring combined with our *Internal Control System (ICS)* support our risk management capability within the corporate governance framework.

We have defined the principles, processes and responsibilities relating to risk management in a corporate standard that is binding throughout the Group. New knowledge, intelligence and findings are taken into consideration as we continuously further develop our guidelines and systems. At Henkel, therefore, risk management is performed on a holistic, integrative basis involving the systematic assessment of risk exposure. We understand risk as the possibility of a negative deviation from a financial target or key performance indicator (KPI) resulting from an event or change in circumstances.

Our annual *risk reporting process* begins with identifying major risks using checklists based on predefined operating risk categories (e.g. procurement and production) and predefined functional risk categories (e.g. information technology and human resources). We evaluate the risks in a two-stage process according to occurrence likelihood and potential loss. The material limit applied is risk of a potential loss upward of one million euros. We initially determine the gross risk and then, in a second stage, the net risk after taking into account our countermeasures. Initially, risks are recorded on a decentralized, per-country basis, with the assistance of regional coordinators. The locally collated risks are then analyzed by the experts in the business sectors and corporate functions, classified in the appropriate corporate management committees and finally assigned to a segment-specific risk inventory. Corporate Accounting is responsible for coordinating the overall process and analyzing the inventorized risks. All the risk management processes are supported by an intranet-resident database which ensures transparent communication throughout the entire corporation. Within the framework of its 2010 audit of our financial statements, the auditor examined the structure and function of our risk early warning system, confirming its adequacy and regulatory compliance.

Risk management system



The following describes the main features of the internal control and risk management system in relation to our *accounting processes* in accordance with Section 289 (5) and Section 315 (2) no. 5 of the German Commercial Code [HGB] as amended by the German Accounting Law Reform Act [BilMoG]. In accordance with the definition of our Risk Management System, the objective of our accounting processes lies in the identification, evaluation and management of all those risks that jeopardize the regulatorily compliant preparation of our annual and consolidated financial statements. Consequently, it is the task of the Internal Control System implemented in order to combat such discrepancies, to put in place corresponding principles, procedures and controls that will ensure a regulatorily compliant process for the preparation of such financial statements.

Within the *organization* of the Internal Control System, the Management Board assumes overriding responsibility at the Group level. The duly coordinated subsystems of the Internal Control System lie within the spheres of responsibility of the functions Risk Management, Compliance, Corporate Accounting, Corporate Finance and Financial Operations. Within these functions, there are a number of integrated monitoring and control levels, ensuring multi-point stability of the internal control and risk management system. This is further attested by regular and comprehensive efficacy reviews performed by our Internal Audit function.

Of the many and varied *control processes* incorporated into the accounting regime, some are worthy of particular mention. The basis for all our accounting processes is provided by our "Accounting" corporate standard, which contains detailed accounting instructions covering all major activities and material eventualities. It specifies, for example, the procedure to be adopted in inventory valuation, and how the transfer prices applicable for intra-group transactions are to be determined. This corporate standard is binding on the entire Group and is regularly reviewed and re-released by the CFO. Further globally binding procedural instructions affecting our accounting practice are contained in our corporate standards "Treasury" and "Investments."

With appropriate organizational measures in conjunction with restrictive control of access to our information systems, we ensure the effective separation of responsibilities in our accounting systems between transaction entry on the one hand and checking/auditing and approval on the other. Documentation relating to the operational accounting and closure processes ensures that important tasks – such as the reconciliation of receivables and payables on the basis of balance statements and confirmations – are clearly assigned. Strict authorization regulations also exist governing the approval of contracts, credit notes and similar, and we practice the double-check security principle right across the board. This is also stipulated in our Group-wide corporate standards.

We consider the established systems to be fit for purpose and functionally efficient. They are regularly reviewed in order to determine their potential for further development and optimization. Once identified, such potential is duly utilized.

Disclosure of major individual risks

Economic and sector-specific risks: Despite the economic recovery, we remain exposed to risks arising from the economic and market environment. The industrial sector particularly harbors risks that could lead to a decline in sales volumes. In the consumer goods sector, there is the risk of weakening market growth in conjunction with increasing competition. Here we are currently observing an ongoing process of consolidation within the retail trade, resulting in increased pressure with respect to both prices and terms of business due to the advent of the trade's own private label brands. Our focus therefore is on achieving a steady increase in our brand equities and developing further innovations. We see innovative products as enabling us to differentiate ourselves from the competition, this being a significant prerequisite for the success of our company.

Procurement market risks: We expect the prices for important raw materials and packaging to rise further on our procurement markets. These price increases are being caused by the upward trend in input raw materials caused by accelerating world economic output and the growing occurrence of supply shortages. We combat price and supply risks by adopting a comprehensive risk management approach. This involves the pro-active management of our vendor portfolio and utilization of our globally engaged, cross-divisional sourcing capability together with strategies aimed at securing both price and volume through the conclusion of contracts. Where appropriate and possible, we also make prudent use of effectively tailored financial safeguards and hedging instruments. We also work within interdisciplinary teams (Research and Development, Supply Chain Management and Purchasing) on devising alternative formulations and different forms of packaging that will enable us to respond flexibly to unforeseen fluctuations in raw material prices. We also avoid becoming dependent on individual vendors so as to better secure the constant supply of the goods and services that we require. Close collaboration with our strategic suppliers plays an exceptionally important role in our risk management regime. We deal in detail with the assessment of vendor risk with respect to their financial stability in the section on "Procurement" on AR pages 57 and 58. The basis for our successful risk management approach in this domain is a comprehensive procurement information system that ensures permanent transparency with respect to our purchasing volumes.

Production risks: Risks in the field of production arise in the Henkel case not only from low capacity utilization due to volume decreases but also in the possibility of operational interruptions, especially at our so-called single-source sites. The negative effects of possible production outages can be offset through flexible production control and appropriate insurance policies where economically viable. Generally, risks in the field of production are minimized by ensuring a high level of employee qualification, establishing clearly defined safety standards and carrying out regular plant and equipment maintenance. Decisions relating to capital expenditures on property, plant and equipment are made in accordance with defined, differentiated responsibility matrices and approval procedures in order to mitigate concomitant risk. The procedures implemented incorporate all the relevant specialist functions and are regulated in an internal corporate guideline requiring that such investments be analyzed in advance on the basis of a detailed risk appraisal. Further auditing and analytical procedures accompanying projects at the appraisal and implementation stage provide the foundation for successful project management and effective risk reduction.

Information technology risks: The risks associated with our IT operations relate primarily to the potential for unauthorized access and data loss. Appropriate approval procedures, authorization profiles and defensive technologies are deployed in order to guard against such eventualities. Daily data back-up runs are conducted to shadow all critical databases, and the resultant files are transferred to another site. We also carry out regular restore tests. External attacks that took place in 2010 – for example in the form of hacking, spamming or viruses – were successfully repelled by the security measures implemented and therefore had no disruptive effect on our business processes. Moreover, Henkel has put in place a globally binding internal IT guideline to which our external service-providers are also bound. Major components of this code include measures for avoiding risk, and descriptions of escalation processes and best-practice technologies. Correct implementation is continuously monitored by our globally active Internal Audit function. In addition, our safeguards are examined for their efficacy and efficiency by external specialists.

Personnel risks: The future economic development of Henkel is essentially dependent upon the commitment and capabilities of our employees. We respond to the increasing competition for well qualified technical and managerial staff by maintaining close contacts with selected universities and by conducting special recruitment campaigns. Our new employer branding campaign is serving to position us more effectively as an employer of choice. We combat the risk of failing to retain valuable employees over the long term through specifically aligned personnel development programs. The basis for these is provided by regular potential and performance analyses leading to attractive qualification and further training opportunities linked to performance-related compensation arrangements. You will find further information relating to our employees on AR pages 55 to 57.

Financial risks: We mitigate credit risk within the framework of our global credit policy through standardized procedures, a pro-active credit management regime and the use of guarantees and payment default insurance policies. Aside from meticulous local vigilance, we also monitor our key customer relationships at the global level. Default and credit risks also arise in the case of financial investments such as cash at bank and the positive fair value of derivatives. However, such exposure is limited by our Corporate Treasury specialists through selection of banks of good reputation with at least an A rating, and restriction of the amounts allocated to individual investments. We also ensure the wide diversification of our financial investments both with respect to different counterparties and different financial assets. More detailed information with respect to our credit risk can be found on AR Note 31 on pages 115 to 121.

Risks from pension obligations relate to changes in interest rates, inflation rates, trends in wages and salaries, and changes in the statistical life expectancies of pension beneficiaries. To minimize exposure and improve risk management, the pension obligations arising in the most important countries are therefore fully funded and managed on the basis of a two-track portfolio approach: The main portion of the portfolio is invested in fund assets exhibiting the same maturity structure and similar interest and inflation sensitivities as the pension obligations (liability-driven investments), reducing the interest rate and inflation risk. In order to cover the risks arising from trends in wages, salaries and life expectancies, and to close the potential deficit between fund 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 investments, hedge funds, real estate and commodity investments.

The pension fund can be adversely affected in the event of a downturn in the capital markets. We mitigate this risk by investing in widely diversified classes of assets and different instruments within each asset class. The risks inherent in the pension fund assets are continuously monitored and controlled on the basis of risk and return criteria. Risks in this respect are quantified using sensitivity analyses. Major pension funds are administered by external fund managers in Germany, the USA, the UK, Ireland and the Netherlands. All these countries follow the above-described standard investment strategy and are centrally monitored. The funds covering our pension obligations are invested on the basis of asset-liability studies aligned to the expected cash flows arising from the country-specific pension obligations. Further information on the development of our pension obligations can be found in AR Note 17 on pages 106 to 110.

Given the global alignment of our businesses, we are exposed to two types of *currency risk*. Transaction risks arise from possible exchange rate fluctuations causing changes in the value of future foreign currency cash flows. Transaction risks arising from our operating business are partially avoided by the fact that we largely manufacture our products in those countries where they are sold. Residual transaction risks on the operating side are pro-actively managed by Corporate Treasury. Its remit includes the ongoing assessment of specific currency risk and the development of appropriate hedging strategies. Because we limit our potential losses, any negative impact on profits is restricted. The transaction risks arising from major financial receivables and financial liabilities are invariably hedged in full. The risks are predominantly mitigated by forward exchange contracts and currency swaps. Translation risks, on the other hand, emanate from changes caused by foreign exchange fluctuations to items on the balance sheet and income statement of a subsidiary, and the effect these changes have on the translation of individual company financial statements into Group currency. 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.

The *interest rate risk* encompasses those potentially positive or negative influences on profits, shareholders' equity or cash flow in current or future reporting periods arising from changes in interest rates. The deployment of interest-bearing financial instruments with the objective of optimizing the net interest result for the Henkel Group constitutes an essential component of our financial policy. The maturity structure is controlled both by choosing appropriate fixed-interest periods for the underlying financial assets and financial liabilities affecting liquidity, and by using interest rate derivatives. We changed the coupon of the two euro-denominated bonds issued by the company from fixed to floating with the aid of interest rate swaps. As the bonds and interest rate swaps are in a formally documented hedge accounting relationship, the measurement of the bonds and the measurement of the interest rate swaps match in practical terms (fair value hedge accounting). We have converted a major portion of the financing of Henkel of America, Inc. in US dollars from floating to fixed interest rates, again through interest rate swaps. When using interest rate swaps to fix an interest rate, the net result arising from the transaction is accrued in equity (cash flow hedge accounting). Depending on interest rate expectations, Henkel also protects itself against short-term increases by negotiating additional interest rate caps and concluding forward rate agreements. As a result, the net interest item derives from a mixed fixed and floating interest rate structure.

The *liquidity risk* describes the risk of a company failing to meet its financial obligations at any given time. We combat this risk by deploying long-term financing instruments and additional liquidity reserves in the form of permanently assured credit lines. The basis of our currency, interest rate and liquidity risk control capability is provided by the treasury guidelines introduced by the Management Board, which are binding on the entire corporation. Defined in these are the targets, principles, accountability and competences of Corporate Treasury. They describe the fields of responsibility and establish the distribution of these responsibilities between the Corporate Treasury department and our subsidiaries. The Management Board is regularly and comprehensively informed of all major risks and of all relevant hedging transactions and arrangements.

Additional information on *risk management with respect to financial instruments* can be found in AR Note 31 on pages 115 to 121.

Legal risks: As a globally active corporation, we are also exposed in the course of our ordinary business activities to a range of risks relating to litigations and other proceedings or actions, including those brought by governmental agencies, in which we are currently involved or may become involved in the future. These include, in particular, risks arising from the fields of product liability, product deficiency, laws relating to competition and monopolies, the infringement of proprietary rights, patent law and tax law, and environmental protection and land contamination issues. The possibility cannot be discounted that the final decisions taken in some of these litigations and proceedings will go against us.

We counteract legal risks by issuing corresponding binding guidelines and codes of conduct and by instituting appropriate training measures. We address current actions and potential litigation risk by maintaining constant contacts between the corporate legal department and local attorneys, and also through our separate reporting system. For certain legal risks, we have concluded insurance policies that are standard for the industry and that we consider to be fit for purpose. We form provisions for litigations to the extent that it is likely in our estimation that obligations may arise which are either excluded from or not fully covered by our insurance policies and where a reasonably accurate estimate of the potential loss is possible. However, predicting the results of actions is beset with considerable difficulties, especially in cases in which the claimant is seeking substantial or unspecified damages. Given these imponderables, we are unable to predict what obligations may arise from such litigations. Consequently, major losses can arise from litigations and proceedings that are not covered by our insurance policies or our provisions.

We do not currently foresee risks arising from litigations or proceedings either pending or threatened that could have a material influence on our net assets, financial position or results of operations.

Business strategy risks can arise from the expectations that we have invested in internal projects, acquisitions and strategic alliances failing to materialize in part or in full. This may, in turn, mean that we are unable to recoup the associated capital expenditures. Individual projects could also be delayed by unforeseen risks.

Our strategy of standardizing our processes on a global scale and concentrating our production facilities may give rise, for example, to strained relationships with employees and vendors. Logistics processes likewise have to be harmonized in the course of integrating acquirees. We limit exposure through early risk analyses performed by experienced specialist units, supported by external consultants where appropriate.

Overall risk – Management Board appraisal

At the time of writing this report, there are no identifiable risks relating to future developments that could endanger the existence either of Henkel AG & Co. KGaA or of the Group as a going concern. As we have no special-purpose entities or investment vehicles, there is no risk that might emanate from such a source. Aggregation of the most significant individual risks is not appropriate due to the unlikelihood that such risks would occur simultaneously. Our risk analysis indicates that our exposure to risk does not represent any lasting endangerment to the net assets, financial position and results of operations either of Henkel AG & Co. KGaA or of the Group. The overall picture shows no underlying change to the risk situation compared to the previous year. The system of risk categorization undertaken by Henkel continues to indicate that the most significant exposure currently relates to the impact of economic and sector uncertainty and financial risk, to which we are responding with the countermeasures described.

Forecast

General economic development

Overview: GDP growth of 3 percent expected
The world economy is set to continue growing in 2011. We anticipate an increase in global gross domestic product of around 3 percent. Private consumption is likely to increase by a good 2.5 percent, with industrial output experiencing considerably stronger growth of some 6 percent.

Regions: emerging markets also heading for serious growth
The emerging nations – and here especially the BRIC states, i.e. Brazil, Russia, India and China – are again likely to prove to be the "growth engines" of the world economy in 2011.

We expect the industrialized countries to undergo growth of around 2 percent in 2011, with only relatively minor regional differences. The US economy should grow by about 2 percent, with Western Europe and Japan each expanding by 1.5 percent. Our expectation for Asia (excluding Japan) and Latin America is for a rise in GDP of around 7 percent and 4 percent respectively. Eastern Europe is likely to accelerate to about 4 percent. We expect GDP in the Africa/Middle East region to also grow by around 4 percent, despite the current political tensions apparent in some states.

Raw material prices: further rises ahead
Given the upward direction of current economic development, we expect raw material prices to also increase, in some cases in the double-digit percentage range. We also anticipate an increase in energy prices.

Currencies: no major changes
We do not anticipate any marked change in the euro exchange rate versus the US dollar, with the annual average likely to remain at around 1.30 to the dollar, subject to the proviso that the European financial crisis is not unduly exacerbated. We also assume that there will be no major changes in the euro parities with respect to the other major currencies such as the Japanese yen, the Chinese yuan or the Russian ruble (see also table top right).

Average exchange rates versus the euro

	2010	2011[1]
US dollar	1.33	1.30
British pound	0.86	0.89
Chinese yuan	8.98	8.85
Japanese yen	116.38	120.00
Russian ruble	40.26	39.00

[1] Expected.

Inflation: slight uptick anticipated
World inflation is likely to lie at around 3 percent in 2011. While the industrialized countries are expected to enjoy a high degree of price stability and therefore an index increase of just 1.5 percent, the figure for the growth regions is likely to average a good 5 percent.

Interest policy: low rates set to continue for the time being
We expect that the central banks will maintain their low-interest and expansive monetary policies, with favorable interest rate levels persisting.

Unemployment: slight global decrease anticipated
Employment opportunities are likely to gradually improve as the global economic recovery continues. In our estimation, world unemployment levels should therefore decrease from 8 to around 7.8 percent.

Sector development

Consumption and the retail sector: growth of 2.5 percent
We expect private consumption – and, linked to this, retail trade revenues – to increase by a good 2.5 percent in 2011, i.e. at about the same rate as in 2010. Growing consumer confidence, slightly improved labor market prospects and persistently low interest rates should add some impetus to consumers' willingness to spend.

Given the tough competitive environment in which retailers operate, they are likely to keep their selling prices stable as far as possible, despite rising raw material prices. As the economic upturn continues, we expect to see no increase in the importance of private labels for the time being.

Industry: increase in output of 6 percent

The rate of industrial expansion will, in our estimation, ease compared to the previous year, although remaining at an appreciable 6 percent.

We expect the transport industry to post a plus of around 7 percent, with the automotive industry following suit. Regionally, the growth rates are likely to range between 5 percent in the USA and a good 10 percent in China and India.

Output levels in the electronics industry are also expected to further increase with a growth rate of around 10 percent in all regions and segments. Growth in Asia is set to well exceed the world average; and in the segment comparison, a disproportionate rise in personal computer production is expected.

Manufacturing output in the metal processing and machine construction sectors is likely to expand by around 7 percent in 2011, with these industries benefiting from a gradual increase in demand for expansion investment.

We anticipate that the packaging industry will grow by about 3 percent. Here, the opportunities for industrial packaging appear more favorable than those for the consumer-related packaging segments.

We foresee a global increase in construction activity of around 3 percent, albeit with marked regional disparities. While we expect building output in the growth regions to expand by more than 5 percent, North America, Western Europe and Japan will see construction stabilize, perhaps with a modicum of growth.

3 to 5%
organic growth rate expected for 2011.

Opportunities: growth regions and innovative products with plenty of potential

We continue to see great potential in the emerging markets with above-average growth opportunities from which we intend to benefit through our local business activities. The regions concerned include, in particular, Asia, Eastern Europe and Africa/Middle East, with Latin America also part of the wider group.

We regard our research and development activities as a further great source of opportunity. We are developing a steady stream of new and innovative products and product solutions able to offer our customers added value. We have a well filled and balanced pipeline of medium and long-term projects involving products and systems that we intend to launch onto the markets of all three of our business sectors both this year and in years to come.

Further opportunity lies in our strict focus on cost and our willingness to constantly examine and analyze the status quo. Such scrutiny regularly reveals further potential for cost reductions and capacity adjustments, or the elimination of marginal business activities and minor brands from our portfolio.

Opportunity is also likely to arise from the ongoing pursuit and implementation of our three strategic priorities, which we explain in detail in the section entitled "Strategy and financial targets for 2012" on AR pages 40 to 43.

Further specific opportunities and risks are discussed in the individual business sector reports starting on AR page 66.

Outlook for the Henkel Group in 2011

Our guidance is based on the assumption that global gross domestic product will increase by around 3 percent in fiscal 2011.

We are confident of once again outperforming our relevant markets in terms of organic sales growth (i.e. sales adjusted for foreign exchange and acquisitions/divestments), expecting an increase within the range of 3 to 5 percent.

Expected development of the markets of relevance to Henkel

Business sector	2011
Laundry & Home Care	0%
Cosmetics/Toiletries	0%
Adhesive Technologies	3–5%

We base this prediction on our strong competitive position. This we have consolidated and further extended in recent years through our innovative strength, our strong brands, our leading market presence and the quality of our portfolio.

In recent years we have introduced a number of measures that have had a positive impact on our cost structure. And in this year too, we intend to further adapt our structures to the constantly changing market conditions as a continuation of our commitment to strict cost discipline.

All these factors, together with the expected increase in sales, will positively influence our earnings development. Taking the 2010 results as our basis, we anticipate achieving an increase to around 13 percent (2010: 12.3 percent) in adjusted[1] return on sales (EBIT) and an increase in adjusted[1] earnings per preferred share of around 10 percent.

Further specific expectations are discussed in the individual business sector reports starting on AR page 66.

Dividends

In keeping with our financial strategy, the dividend payout should be around 25 percent of net income attributable to shareholders of Henkel AG & Co. KGaA. Based on the anticipated increase in earnings, we therefore expect to further increase dividends paid for 2011.

Research and development

The development of innovative products is of key importance to the performance of all three of our business sectors. Hence, we plan to invest around 2.6 percent of our sales in R&D in 2011.

Capital expenditures

Having cut back our capital expenditures in 2010 in the wake of the economic and financial crisis, we plan to invest around 400 million euros in property, plant and equipment in 2011. We intend to substantially increase capital expenditures in our growth regions. For structural reasons, a large portion of our investments will be in Europe and North America. Major projects in the pipeline include a high-capacity packaging line for air fresheners in the USA (Laundry & Home Care), a packaging line for new folding boxes in Germany (Cosmetics/Toiletries) and the construction of a plant in China destined to be our largest adhesives manufacturing facility worldwide (Adhesive Technologies).

Acquisitions and financing

Our priority in fiscal 2011 will be on further reducing our net debt and, related to this, adding to the strength of our financial base. Our priority is on regaining our target ratings "A flat" (Standard & Poor's) and "A2" (Moody's). Any acquisitions made will therefore be limited in scope such that they do not inhibit the achievement of this primary objective.

We also expect the following developments to materialize in 2011:

- An increase in the overall cost of raw materials, packaging, contract manufacturing and traded goods in the high single-digit percentage range.
- Restructuring charges amounting to between 100 and 120 million euros.
- A financial result in the region of minus 160 million euros.
- A tax rate of around 26 percent.

Sales and profits forecast 2012

With our focus firmly fixed on pursuing the three strategic priorities formulated in 2008 and the progress that we have made in their achievement, we have laid a solid foundation for the generation of future profitable growth.

With world economic growth in 2011 likely to be around 3 percent, we expect a similar rate of expansion in 2012.

On that basis, we will again be aiming in 2012 at achieving an organic sales growth rate of between 3 and 5 percent, therefore outperforming the markets of relevance to us. Due to the measures aimed at achieving our full business potential – both implemented and still outstanding – we are very

Around **13 %**
adjusted[1] return on sales expected for 2011.

Around **10 %**
rise in adjusted[1] earnings per preferred share expected.

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

confident of reaching our 2012 targets of 14 percent in adjusted[1)] return on sales (EBIT) and an increase of more than 10 percent in adjusted[1)] earnings per preferred share (EPS).

Financial targets for 2012

Annual organic sales growth (average):
3–5 percent

Adjusted[1)] return on sales (EBIT):
14 percent

Annual growth in adjusted[1)] earnings per preferred share (average):
>10 percent

Subsequent events

With economic effect as of January 1, 2011, we acquired 100 percent of the shares in Schwarzkopf Inc., Culver City, California, USA and have included it within our scope of consolidation from that date. Until the end of 2010 we operated our hair salon business in the USA using the well known Schwarzkopf Professional brands on the basis of a license agreement.

Effective January 11, 2011, we completed the disposal of a non-core portion of our building adhesives business in South Korea. The assets recognized as held for sale at the time of the divestment have been transferred to the purchaser.

Together with our cooperation partner Sandoz, we have decided, as of the end of 2012, to end our joint venture Biozym in Kundl, Austria, founded in 1984, and to close down our enzyme manufacturing operations there. This action is in line with changing market conditions relating to both quality and price. The employees affected were informed of this decision on January 17, 2011.

We have decided to transfer detergent tablet production for machine-dishwashing applications back to our plant in Düsseldorf-Holthausen, Germany, and have therefore given notice of termination of the associated toll manufacturing contract. We intend to invest around 25 million euros between now and February 2012 in order to establish the required tablet manufacturing capability for machine-dishwashing products at our Düsseldorf-Holthausen site. We informed the appropriate works committees of this decision in mid-January 2011.

At the end of January 2011, we ended our own production of the bleach activator TAED in Cork, Ireland, selling the associated business to an investor. TAED (tetra acetyl ethylene diamine) is a laundry detergent additive designed to boost bleaching performance. The investor taking over the plant will continue supplying Henkel with TAED.

[1)] After adjusting for one-time charges/gains and restructuring charges.

Consolidated financial statements subindex

Consolidated balance sheet

Assets

in million euros	Note	2009	%	2010	%
Intangible assets	1	8,218	52.0	8,641	49.3
Property, plant and equipment	2	2,248	14.2	2,215	12.6
Non-current financial assets	3	360	2.3	328	1.9
Non-current income tax refund claims		2	–	3	–
Other non-current assets	4	12	0.1	30	0.2
Deferred taxes	5	322	2.0	358	2.0
Non-current assets		11,162	70.6	11,575	66.0
Inventories	6	1,218	7.7	1,460	8.3
Trade accounts receivable	7	1,721	10.9	1,893	10.8
Other current financial assets	8	214	1.3	708	4.0
Other current assets	9	224	1.4	210	1.2
Current income tax refund claims		139	0.9	133	0.8
Liquid funds/Marketable securities	10	1,110	7.0	1,515	8.7
Current assets		4,626	29.2	5,919	33.8
Assets held for sale	11	30	0.2	31	0.2
Total assets		15,818	100.0	17,525	100.0

Equity and liabilities

in million euros	Note	2009	%	2010	%
Issued capital	12	438	2.8	438	2.5
Capital reserve	13	652	4.1	652	3.7
Treasury shares		–109	–0.7	–99	–0.5
Retained earnings	14	7,017	44.4	7,926	45.2
Other components of equity	15	–1,524	–9.6	–1,058	–6.0
Equity attributable to shareholders of Henkel AG & Co. KGaA		**6,474**	**41.0**	**7,859**	**44.9**
Non-controlling interests	16	70	0.4	91	0.5
Equity		**6,544**	**41.4**	**7,950**	**45.4**
Pension obligations	17	867	5.5	594	3.4
Non-current income tax provisions	18	152	1.0	119	0.7
Other non-current provisions	18	241	1.5	302	1.7
Non-current borrowings	19	3,426	21.7	3,570	20.4
Non-current financial liabilities	20	88	0.5	128	0.7
Other non-current liabilities	21	20	0.1	17	0.1
Deferred taxes	22	367	2.3	416	2.4
Non-current liabilities		**5,161**	**32.6**	**5,146**	**29.4**
Current income tax provisions	23	224	1.4	327	1.9
Other current provisions	23	938	5.9	867	4.9
Current borrowings	24	660	4.2	536	3.1
Trade accounts payable	25	1,885	11.9	2,308	13.1
Current financial liabilities	26	145	0.9	175	1.0
Other current liabilities	27	251	1.6	205	1.1
Current income tax liabilities		10	0.1	11	0.1
Current liabilities		**4,113**	**26.0**	**4,429**	**25.2**
Total equity and liabilities		**15,818**	**100.0**	**17,525**	**100.0**

Consolidated statement of income

in million euros	Note	2009	%	2010	%	Change
Sales	32	13,573	100.0	15,092	100.0	11.2%
Cost of sales[1]	33	–7,411	–54.6	–8,078	–53.5	9.0%
Gross profit		6,162	45.4	7,014	46.5	13.8%
Marketing, selling and distribution expenses[1]	34	–3,926	–28.9	–4,257	–28.2	8.4%
Research and development expenses[1]	35	–396	–2.9	–391	–2.6	–1.3%
Administrative expenses[1]	36	–735	–5.4	–750	–5.0	2.0%
Other operating income	37	140	1.0	216	1.4	54.3%
Other operating charges	38	–165	–1.2	–109	–0.7	–33.9%
Operating profit (EBIT)		1,080	8.0	1,723	11.4	59.5%
Interest income		70	0.5	64	0.4	–8.6%
Interest expense		–261	–1.9	–236	–1.5	–9.6%
Interest result		–191	–1.4	–172	–1.1	–9.9%
Investment result		–4	–	1	–	>100.0%
Financial result	39	–195	–1.4	–171	–1.1	–12.3%
Income before tax		885	6.6	1,552	10.3	75.4%
Income tax expense	40	–257	–1.9	–409	–2.7	59.1%
Net income		628	4.7	1,143	7.6	82.0%
– Attributable to non-controlling interests	41	26	0.2	25	0.2	–3.8%
– Attributable to shareholders of Henkel AG & Co. KGaA		602	4.5	1,118	7.4	85.7%

[1] Restructuring charges 2010: 184 million euros (2009: 159 million euros), of which: cost of sales 114 million euros (2009: 70 million euros); marketing, selling and distribution expenses 23 million euros (2009: 52 million euros); research and development expenses 8 million euros (2009: 52 million euros); administrative expenses 39 million euros (2009: 24 million euros).

Earnings per share (basic)

in euros	Note	2009	2010	Change
Ordinary shares	45	1.38	2.57	86.2%
Non-voting preferred shares	45	1.40	2.59	85.0%

Earnings per share (diluted)

in euros	Note	2009	2010	Change
Ordinary shares	45	1.38	2.56	85.5%
Non-voting preferred shares	45	1.40	2.58	84.3%

Additional voluntary information

in million euros		2009	2010
EBIT (as reported)		1,080	1,723
One-time gains[1]		–9	–59
One-time charges[2]		134	14
Restructuring charges		159	184
Adjusted EBIT		1,364	1,862
Adjusted return on sales	*in %*	*10.0*	*12.3*
Adjusted financial result		–195	–171
Adjusted net income – Attributable to shareholders of Henkel AG & Co. KGaA		822	1,217
Adjusted earnings per preferred share	in euros	1.91	2.82

[1] Of which: 19 million euros from the release of a provision for an onerous supplier contract; 15 million euros gain from a compensation payment for license rights; 15 million euros from the release of provisions for post-retirement health care; 10 million euros from the release of provisions for restructuring.
[2] Of which: 6 million euros arising from the write-down of assets relating to the sale of our adhesives business in South Korea; 5 million euros loss from the impairment of a customer relationship attributable to our adhesives business; 3 million euros loss from the sale of our adhesives business involving solder bumps (soldering spheres) in Taiwan.

Statement of comprehensive income

in million euros	2009	2010
Net income	628	1,143
Exchange differences on translation of foreign operations	–104	531
Derivative financial instruments	–11	–59
Actuarial gains/losses	–285	53
Other comprehensive income (net of taxes)	–400	525
Total comprehensive income for the period	228	1,668
– Attributable to non-controlling interests	24	31
– Attributable to shareholders of Henkel AG & Co. KGaA	204	1,637

Statement of changes in equity

See Notes 12 to 16

in million euros	Issued capital					Other components				
	Ordinary shares	Preferred shares	Capital reserve	Treasury shares	Retained earnings	Translation differences	Financial instru-ments	Shareholders of Henkel AG & Co. KGaA	Non-control-ling interests	Total
At January 1, 2009	260	178	652	–115	6,920	–1,199	–212	6,484	51	6,535
Net income					602			602	26	628
Other comprehensive income					–285	–102	–11	–398	–2	–400
Total comprehensive income					*317*	*–102*	*–11*	*204*	*24*	*228*
Distributions					–224			–224	–12	–236
Sale of treasury shares				6	4			10		10
Other changes in equity					–				7	7
At December 31, 2009 / January 1, 2010	260	178	652	–109	7,017	–1,301	–223	6,474	70	6,544
Net income					1,118			1,118	25	1,143
Other comprehensive income					53	525	–59	519	6	525
Total comprehensive income					*1,171*	*525*	*–59*	*1,637*	*31*	*1,668*
Distribution					–225			–225	–19	–244
Sale of treasury shares				10	9			19		19
Other changes in equity					–46			–46	9	–37
At December 31, 2010	260	178	652	–99	7,926	–776	–282	7,859	91	7,950

Consolidated cash flow statement

See Note 46

in million euros	2009	2010
Operating profit (EBIT)	**1,080**	**1,723**
Income taxes paid	–305	–365
Amortization/depreciation/write-ups of non-current assets (excluding financial assets)	588	478
Net gains/losses on disposal of non-current assets (excluding financial assets)	12	–5
Change in inventories	276	–182
Change in trade accounts receivable	136	–72
Change in other financial assets and other assets	–15	–14
Change in trade accounts payable	208	341
Change in other liabilities and provisions	–61	–53
Cash flow from operating activities	**1,919**	**1,851**
Purchase of intangible assets	–28	–16
Purchase of property, plant and equipment	–344	–240
Purchase of financial assets/acquisitions	19[1) 2)]	–46
Proceeds on disposal of subsidiaries and business units	90	19
Proceeds on disposal of other non-current assets	51	43
Cash flow from investing activities/acquisitions	**–212**	**–240**
Dividends paid to shareholders of Henkel AG & Co. KGaA	–224	–225
Dividends paid to non-controlling interests	–12	–19
Interest received	70	60
Interest paid	–211	–220
Dividends and interests paid and received	*–377*	*–404*
Change in borrowings	–152	–174
Allocation to pension funds	–389	–312
Other changes in pensions obligations	5	30
Other financing transactions	–19[2)]	–363
Cash flow from financing activities	**–932**	**–1,223**
Net increase in cash and cash equivalents	775	388
Effect of exchange rates on cash and cash equivalents	–3	17
Change in liquid funds/marketable securities	**772**	**405**
Liquid funds/marketable securities at January 1	338	1,110
Liquid funds/marketable securities at December 31	1,110	1,515

1) Of which: 103 million euros proceeds from the cash pool settlement from acquisition of the National Starch businesses.
2) Prior-year figures adjusted with retrospective effect following changes in IAS 7 resulting from IAS 27.

Additional voluntary information
Reconciliation to free cash flow

in million euros	2009	2010
Cash flow from operating activities	1,919	1,851
Purchase of intangible assets	–28	–16
Purchase of property, plant and equipment	–344	–240
Proceeds on disposal of other non-current assets	51	43
Net interest paid	–141	–160
Other changes in pensions obligations	5	30
Free cash flow	**1,462**	**1,508**

Group segment report by business sector[1)]

See Note 44

in million euros	Laundry & Home Care	Cosmetics/ Toiletries	*Adhesives for Consumers and Craftsmen*	*Industrial Adhesives*	Total Adhesive Tech-nologies	Operating business sectors total	Corporate	Henkel Group
Sales 2010	**4,319**	**3,269**	**1,872**	**5,434**	**7,306**	**14,894**	**199**	**15,092**
Change from previous year	4.6%	8.6%	7.7%	21.1%	17.4%	11.5%	–	11.2%
After adjusting for foreign exchange	1.1%	4.7%	3.0%	14.2%	11.1%	6.6%	–	6.4%
Organic	1.5%	4.8%	6.6%	13.9%	11.8%	7.0%	–	7.0%
Proportion of Group sales	29%	22%	12%	36%	48%	99%	1%	100%
Sales 2009	4,129	3,010	1,738	4,486	6,224	13,363	210	13,573
EBIT 2010	**542**	**411**	**216**	**662**	**878**	**1,831**	**–108[4)]**	**1,723**
EBIT 2009	501	387	104	186	290	1,178	–98[4)]	1,080
Change from previous year	8.2%	6.1%	>100%	>100%	>100%	55.4%	–	59.5%
Return on sales (EBIT) 2010	**12.6%**	**12.6%**	**11.5%**	**12.2 %**	**12.0%**	**12.3%**	**–**	**11.4%**
Return on sales (EBIT) 2009	12.1%	12.9%	6.0%	4.2%	4.7%	8.8%	–	8.0%
EBIT adjusted 2010	**562**	**436**	**246**	**692**	**938**	**1,936**	**–74**	**1,862**
EBIT adjusted 2009	530	387	199	307	506	1,423	–59	1,364
Change from previous year	6.2%	12.4%	23.9%	>100%	85.5%	36.1%	–	36.5%
Return on sales (EBIT adjusted) 2010	**13.0%**	**13.3%**	**13.1%**	**12.7%**	**12.8%**	**13.0%**	**–**	**12.3%**
Return on sales (EBIT adjusted) 2009	12.8%	12.9%	11.4%	6.8%	8.1%	10.6%	–	10.0%
Capital employed 2010[2)]	**2,558**	**2,041**	**1,004**	**6,046**	**7,049**	**11,648**	**–53**	**11,595**
Capital employed 2009[2)]	2,562	2,125	1,161	5,874	7,035	11,722	–181	11,541
Change from previous year	–0.2%	–3.9%	–13.5%	2.9%	0.2%	–0.6%	–	0.5%
Return on capital employed (ROCE) 2010	**21.2%**	**20.1%**	**22.1%**	**11.0%**	**12.5%**	**15.8%**	**–**	**14.9%**
Return on capital employed (ROCE) 2009	19.6%	18.2%	10.4%	3.7%	4.8%	10.4%	–	9.8%
Amortization and depreciation of intangible assets and property, plant and equipment 2010	**121**	**48**	**67**	**220**	**287**	**456**	**22**	**478**
of which impairment losses 2010	**12**	**2**	**25**	**35**	**60**	**74**	**1**	**75**
of which write-ups 2010	**–**	**–**	**1**	**4**	**5**	**5**	**1**	**6**
Amortization and depreciation of intangible assets and property, plant and equipment 2009	121	46	96	282	378	545	43	588
of which impairment losses 2009	10	1	32	105	137	148	27	175
of which write-ups 2009	1	–	–	2	2	3	–	3
Capital expenditures (excl. financial assets) 2010	**85**	**43**	**35**	**85**	**120**	**248**	**11**	**260**
Capital expenditures (excl. financial assets) 2009	156	43	40	153	193	392	23	415
Operating assets 2010[3)]	**4,135**	**2,919**	**1,433**	**7,190**	**8,623**	**15,677**	**352**	**16,029**
Operating liabilities 2010	**1,408**	**1,077**	**487**	**1,419**	**1,906**	**4,391**	**405**	**4,796**
Net operating assets employed 2010[3)]	**2,727**	**1,842**	**946**	**5,770**	**6,717**	**11,286**	**–53**	**11,233**
Operating assets 2009[3)]	3,838	2,723	1,470	6,789	8,259	14,820	357	15,177
Operating liabilities 2009	1,123	800	375	1,195	1,570	3,493	538	4,031
Net operating assets employed 2009[3)]	2,715	1,923	1,095	5,594	6,689	11,327	–181	11,146

[1)] Calculated on the basis of units in 1,000 euros.
[2)] Including goodwill at cost prior to any accumulated amortization in accordance with IFRS 3.79 (b).
[3)] Including goodwill at net book value.
[4)] Including restructuring charges of 14 million euros (2009: 44 million euros) disclosed for the last time under Corporate, arising from integration of the National Starch businesses.

Key financials by region[1)]

in million euros	Western Europe	Eastern Europe	Africa/ Middle East	North America	Latin America	Asia-Pacific	Regions total	Corporate	Henkel Group
Sales[2)] 2010	**5,470**	**2,649**	**901**	**2,724**	**982**	**2,168**	**14,894**	**199**	**15,092**
Change from previous year	4.3%	13.7%	18.7%	7.0%	19.1%	30.8%	**11.5%**	–	**11.2%**
After adjusting for foreign exchange	3.6%	7.4%	12.8%	1.0%	11.6%	17.9%	**6.6%**	–	**6.4%**
Organic	4.0%	7.2%	12.8%	3.5%	9.8%	17.8%	**7.0%**	–	**7.0%**
Proportion of Group sales	36%	18%	6%	18%	7%	14%	**99%**	1%	**100%**
Sales[2)] 2009	5,246	2,330	759	2,546	825	1,657	**13,363**	210	**13,573**
EBIT 2010	**706**	**314**	**81**	**320**	**104**	**306**	**1,831**	**–108**	**1,723**
EBIT 2009	531	232	75	127	74	139	**1,178**	–98	**1,080**
Change from previous year	32.8%	35.2%	8.7%	>100%	39.8%	>100%	**55.4%**	–	**59.5%**
After adjusting for foreign exchange	32.1%	25.2%	0.5%	>100%	29.9%	96.6%	**47.6%**	–	**53.2%**
Return on sales (EBIT) 2010	**12.9%**	**11.9%**	**9.0%**	**11.8%**	**10.5%**	**14.1%**	**12.3%**	**–**	**11.4%**
Return on sales (EBIT) 2009	10.1%	10.0%	9.8%	5.0%	9.0%	8.4%	**8.8%**	–	**8.0%**
Return on capital employed (ROCE) 2010	**26.6%**	**49.5%**	**25.9%**	**5.5%**	**20.3%**	**18.5%**	**15.8%**	**–**	**14.9%**
Return on capital employed (ROCE) 2009	17.6%	35.7%	26.0%	2.5%	14.8%	11.1%	**10.4%**	–	**9.8%**

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

In 2010, the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, generated sales of 2,182 million euros (previous year: 2,048 million euros). Sales realized by the affiliated companies domiciled in the USA in 2010 amounted to 2,502 million euros (previous year: 2,363 million euros).

Of the total recognized non-current assets in the Henkel Group as of December 31, 2010 (excluding financial instruments and deferred tax assets) in the amount of 10,876 million euros (previous year: 10,471 million euros), the affiliated companies domiciled in Germany, including Henkel AG & Co. KGaA, accounted for 1,043 million euros (previous year: 1,087 million euros). The affiliated companies domiciled in the USA reported non-current assets (excluding financial instruments and deferred tax assets) of 5,731 million euros (previous year: 5,448 million euros).

Consolidated changes in intangible assets, property, plant and equipment

Cost

in million euros	Intangible assets	Property, plant and equipment	Total
At January 1, 2009	9,027	5,713	14,740
Changes in the Group	39	3	42
Additions	28	344	372
Disposals[1]	–68	–410	–478
Reclassifications	10	–10	–
Translation differences	–139	–27	–166
At December 31, 2009/January 1, 2010	8,897	5,613	14,510
Changes in the Group	1	–	1
Additions	16	240	256
Disposals[2]	–91	–320	–411
Reclassifications	2	4	6
Translation differences	632	182	814
At December 31, 2010	9,457	5,719	15,176
[1] of which assets held for sale 2009	–41	–46	–87
[2] of which assets held for sale 2010	–	–46	–46

Accumulated amortization/depreciation

in million euros	Intangible assets	Property, plant and equipment	Total
At January 1, 2009	536	3,352	3,888
Changes in the Group	–	–	–
Write-ups	–	–3	–3
Scheduled amortization/depreciation	108	308	416
Impairment losses	106	69	175
Disposals[1]	–63	–347	–410
Reclassifications	–	–	–
Translation differences	–8	–14	–22
At December 31, 2009/January 1, 2010	679	3,365	4,044
Changes in the Group	–	–	–
Write-ups	–	–6	–6
Scheduled amortization/depreciation	109	300	409
Impairment losses	33	42	75
Disposals[2]	–23	–282	–305
Reclassifications	–	3	3
Translation differences	18	82	100
At December 31, 2010	816	3,504	4,320
[1] of which assets held for sale 2009	–37	–32	–69
[2] of which assets held for sale 2010	–	–41	–41

The impairment losses are allocated to the relevant functions.

Net book value

in million euros	Intangible assets	Property, plant and equipment	Total
At December 31, 2010	8,641	2,215	10,856
At December 31, 2009	8,218	2,248	10,466

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

General information

The consolidated financial statements of Henkel AG & Co. KGaA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and in compliance with Section 315a of the German Commercial Code [HGB].

The individual financial statements of the companies included in the consolidation are drawn up on the same accounting date as those of Henkel AG & Co. KGaA.

Members of the KPMG organization or other independent firms of auditors instructed accordingly have either audited the financial statements of companies included in the consolidation or, in exceptional cases, conducted a review of those financial statements. On January 28, 2011, the Management Board of Henkel Management AG – which is the Personally Liable Partner of Henkel AG & Co. KGaA – approved the release of the consolidated financial statements to the Supervisory Board. The Supervisory Board is responsible for reviewing the consolidated financial statements and declaring whether it approves them.

The consolidated financial statements are based on the principle of historical cost with the exception that certain financial instruments are accounted for at their fair values. The Group currency is the euro. Unless otherwise indicated, all amounts are shown in million euros. In order to improve the clarity and informative value of the consolidated financial statements, certain items are combined in the consolidated balance sheet, the consolidated statement of income and the statement of comprehensive income, and then shown separately in the Notes.

Scope of consolidation

In addition to Henkel AG & Co. KGaA as the ultimate parent company, the consolidated financial statements at December 31, 2010 include nine German and 182 non-German companies in which Henkel AG & Co. KGaA has the power to govern financial and operating policy, based on the concept of control. This is generally the case where Henkel AG & Co. KGaA holds, directly or indirectly, a majority of the voting rights. Companies in which not more than half of the shares are held, are fully consolidated if Henkel AG & Co. KGaA has the power, directly or indirectly, to govern their financial and operating policies.

Compared to December 31, 2009, three new companies have been included in the scope of consolidation, seven companies have been merged, and a further sixteen companies have ceased to be subsidiaries and have therefore left the scope of consolidation. No companies are included in the scope of consolidation on a proportionate basis. The changes in the scope of consolidation have not had any material effect on the main items of the consolidated financial statements.

Acquisitions and divestments

In April 2010, we spent 7 million euros on acquisition of the remaining non-controlling interests in Henkel Huawei Electronics Co. Ltd., Lianyungang, China. Our shareholding in Henkel Huawei Electronics Co. Ltd. now stands at 95 percent. In August 2010, we made an acquisition in the Middle East attributable to the Cosmetics/Toiletries business sector at a cost of 1 million euros. In addition, we increased to 100 percent our shareholdings in subsidiaries in Guatemala (at a cost of 23 million euros) and on Cyprus (for 6 million euros). In December 2010, we acquired Schwarzkopf Inc., Culver City, California, USA. The purchase price was 41 million euros.

In June 2010, we sold our Taiwanese business involving solder bumps/spheres for 5 million euros.

We also divested non-core activities in Japan in March 2010, and in South Korea in December 2010. The proceeds from the sale in Japan amounted to 2 million euros, while the disposal in South Korea generated 15 million euros

As a result of amendments to IFRS 3 coming into force as of January 1, 2010, (ancillary) transaction costs arising from the acquisition of participating interests/business combinations are no longer included in the measurement of the consideration transferred or the assets acquired. Instead, they are expensed as of the period when incurred.

The acquisitions and divestments made in fiscal 2010 had no material effect on the business and organizational structure of Henkel, nor on our net assets, financial position or results of operations.

Consolidation methods

The purchase method is used for the consolidation of capital. This method stipulates that, for business combinations, all hidden reserves and hidden charges in the company acquired must be fully reflected at fair value and all identifiable intangible assets must be separately disclosed. Any difference arising between the fair value of the net assets and the purchase price is recognized as goodwill. Companies acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the Henkel AG & Co. KGaA investment in them against their assets and liabilities. In subsequent years, the carrying amount of the Henkel AG & Co. KGaA investment in the subsidiary companies is eliminated against the current equity of the subsidiary companies.

All receivables and liabilities, sales, income and expenses, as well as intercompany profits on non-current assets or inventories resulting from intra-group transactions, are eliminated on consolidation. Intra-group transactions are effected on the basis of market or transfer prices.

Currency translation

The financial statements of the consolidated companies, including the hidden reserves and hidden charges of Group companies recognized under the purchase method, and also goodwill arising on consolidation, are translated into euros using the functional currency method outlined in International Accounting Standard (IAS) 21 "The Effects of Changes in Foreign Exchange Rates." The functional currency is the main currency in which the foreign company predominantly generates funds and makes payments. As the functional currency for all the companies included in the consolidation is the local currency of the company concerned, assets and liabilities are translated at closing rates, while income and expenses are translated at the average rates for the year, based on an approximation of the actual rates at the date of the transaction. The differences arising from using average rather than closing rates are taken to equity and shown as gains and losses recognized in equity, without affecting net income.

Foreign currency accounts receivable and payable are translated at closing rates. For the main currencies in the Group, the following exchange rates have been used based on one euro:

Currency

		Average exchange rate		Closing exchange rate	
	ISO code	2009	2010	2009	2010
US dollars	USD	1.39	**1.33**	1.4406	**1.3362**
British pound	GBP	0.89	**0.86**	0.8881	**0.8608**
Chinese yuan	CNY	9.53	**8.98**	9.8350	**8.8220**
Japanese yen	JPY	130.33	**116.38**	133.1600	**108.6500**
Russian ruble	RUB	44.15	**40.26**	43.1540	**40.8200**

Accounting estimates and assumptions

Preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are continually reviewed. Changes in accounting estimates are recognized in the period in which the change takes place where such change exclusively affects that period. A change is recognized in the period in which it occurs and in later periods where such change affects both the reporting period and subsequent periods. The judgments of the Management Board regarding the application of those IFRSs which have a significant impact on the consolidated financial statements are presented in the explanatory notes on taxes on income (see Note 40, AR pages 123 to 125), intangible assets (see Note 1, AR pages 99 to 102), pension obligations (see Note 17, AR pages 106 to 110), derivatives and other financial instruments (see Note 31, AR pages 115 to 121) and share-based payment plans (see Note 42, AR pages 126 to 128).

Accounting standards not applied in advance of their effective date

The following interpretations and revisions to existing standards of possible relevance to Henkel, which have since been adopted into EU law (endorsement mechanism) but are not yet mandatory, have not yet been applied:

- In October 2009, the International Accounting Standards Board (IASB) issued amendments relating to International Accounting Standard (IAS) 32 "Financial Instruments: Presentation." The amendments stipulate the accounting procedure with respect to the issuers of pre-emptive rights, options and warrants

for acquiring a fixed number of equity instruments that are denominated in a currency other than that of the issuer. Such cases were hitherto reported as derivative liabilities. Pre-emptive rights that are issued pro-rata at a fixed currency amount to the existing shareholders of a company are in future to be classified as equity. The currency in which the exercise price is stated is irrelevant. The amendments are applicable for financial years beginning on or after February 1, 2010, with earlier application permitted.
- In November 2009, the International Accounting Standards Board (IASB) issued a revised version of IAS 24 “Related Party Disclosures.” The revised standard clarifies the definition of a related party and simplifies the disclosure requirements for government-related entities. The amendments are applicable for financial years beginning after December 31, 2010, with earlier application permitted.
- International Financial Reporting Interpretations Committee (IFRIC) 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” deals with the accounting treatment of voluntary prepaid contributions made by a company in order to meet existing minimum funding requirements. The amendment allows a company to recognize the benefit arising from such a prepayment as an asset. The interpretation is applicable for financial years beginning after December 31, 2010, with earlier application permitted.
- IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments” states in particular that if a debtor issues equity instruments to a creditor to extinguish all or part of a financial liability, those equity instruments are “consideration paid” in accordance with IAS 39.41. The debtor should measure the equity instruments issued to the creditor at fair value. The debtor recognizes in profit or loss the difference between the carrying amount of the financial liability (or part) extinguished and the measurement of the equity instruments issued. The interpretation is applicable for financial years beginning after June 30, 2010, with earlier application permitted.

All these standards and interpretations will be applied by Henkel from fiscal 2011 or later. We expect the future application of amendments to IAS 24 and IAS 32, and of IFRIC 14 and 19 not to have a significant impact on the presentation of the financial statements.

In fiscal 2010, the IASB issued the following standards or interpretations of and amendments to standards of relevance to Henkel which still have to be adopted in EU law (endorsement mechanism) before they become applicable:
- Amendments to IFRS 7 “Financial Instruments: Disclosures.”
- IFRS 9 “Financial Instruments.”
- Collective standard “Improvements to IFRSs.”

These interpretations and standards will be applied by Henkel from fiscal 2011 or later. We expect the future application of the aforementioned standards and interpretations not to have a significant impact on the presentation of the financial statements.

Notes to the consolidated balance sheet

The accounting policies for balance sheet items are described in the relevant Note.

Non-current assets

All non-current assets with definite useful lives are amortized or depreciated using the straight-line method on the basis of estimated useful lives standardized throughout the Group, with impairment losses being recognized when required.

The following standard useful lives continue to be used as the basis for calculating amortization and depreciation:

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
Production facilities	10 to 25
Machinery	7 to 10
Other equipment	10
Vehicles	5 to 20
Factory and research equipment	2 to 5

(1) Intangible assets

Cost

in million euros	Trademark rights and other rights				
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At January 1, 2009	1,201	1,468	136	6,222	9,027
Changes in the Group	–	–	–1	40	39
Additions	–	11	16	1	28
Disposals[1]	–	–27	–2	–39	–68
Reclassifications	5	–3	8	–	10
Translation differences	–50	–12	–1	–76	–139
At December 31, 2009/January 1, 2010	1,156	1,437	156	6,148	8,897
Changes in the Group	–	–	–	1	1
Additions	–	6	10	–	16
Disposals[2]	–	–16	–1	–74[3]	–91
Reclassifications	–	2	–	–	2
Translation differences	84	88	3	457	632
At December 31, 2010	1,240	1,517	168	6,532	9,457
[1] of which assets held for sale 2009	–	–2	–	–39	–41
[2] of which assets held for sale 2010	–	–	–	–	–

[3] For the explanation of a disposal of goodwill amounting to 63 million euros, see Note 23, page 113.

Accumulated amortization

in million euros	Trademark rights and other rights				
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At January 1, 2009	4	492	40	–	536
Changes in the Group	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	90	18	–	108
Impairment losses	5	55	–	46	106
Disposals[1]	–	–26	–2	–35	–63
Reclassifications	–	–	–	–	–
Translation differences	–	–8	–	–	–8
At December 31, 2009/January 1, 2010	9	603	56	11	679
Changes in the Group	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	86	23	–	109
Impairment losses	4	23	–	6	33
Disposals[2]	–	–16	–1	–6	–23
Reclassifications	–	–	–	–	–
Translation differences	–	17	1	–	18
At December 31, 2010	13	713	79	11	816
[1] of which assets held for sale 2009	–	–2	–	–35	–37
[2] of which assets held for sale 2010	–	–	–	–	–

Net book value

in million euros	Trademark rights and other rights				
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At December 31, 2010	1,227	804	89	6,521	8,641
At December 31, 2009	1,147	834	100	6,137	8,218

Trademarks and other rights acquired for valuable consideration are stated initially at acquisition cost, while internally generated software is stated at manufacturing cost. Thereafter, goodwill and trademark rights and other rights with indefinite useful lives are subject to an impairment test at least once a year (impairment-only approach). In the course of our annual impairment test, we reviewed the carrying values 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 balance sheet date.

Book value

in million euros

Cash-generating units	Dec. 31, 2009 Trademark rights and other rights with indefinite useful lives	Dec. 31, 2009 Goodwill	Dec. 31, 2010 Trademark rights and other rights with indefinite useful lives	Dec. 31, 2010 Goodwill
Detergents	336	637	362	683
Household cleaners	224	717	241	776
Total Laundry & Home Care	**560**	**1,354**	**603**	**1,459**
Retail products	450	982	481	1,046
Hair salon products	13	49	13	51
Total Cosmetics/Toiletries	**463**	**1,031**	**494**	**1,097**
Adhesives for Craftsmen, Consumers and Building	44	390	47	411
Packaging, Consumer Goods and Construction Adhesives	39	1,745	42	1,817
Transport, Metal, General Industry and Electronics	41	1,617	41	1,737
Total Adhesive Technologies	**124**	**3,752**	**130**	**3,965**

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 with a three-year financial forecasting horizon. For the period after that, a growth rate in a bandwidth 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 1.34. Taking into account specific tax effects, the cash flows in all cash-generating units are discounted at different rates for the cost of capital (WACC) in each business sector: 6.5 percent after tax for Laundry & Home Care and Cosmetics/Toiletries, and 7.5 percent after tax for Adhesive Technologies.

In the *Laundry & Home Care* business sector, we have assumed an increase in sales during the three-year forecasting horizon of approximately 3 percent per year with a slight increase in world market share.

Sales growth in the *Cosmetics/Toiletries* business sector over the three-year forecasting horizon is budgeted at around 3 percent per annum. With the cosmetics market relevant to Henkel expected to grow at an annual rate of less than 1 percent, this would mean an increase in market share.

The anticipated average sales growth during the three-year forecasting horizon in the *Adhesive Technologies* business sector is approximately 5 percent.

In all the business sectors, we have assumed that a future increase in the price of raw materials can be largely offset by economies in purchasing and/or passed on to our customers. With measures to improve efficiency and pro-active management of the portfolio, we anticipate achieving higher gross margins in all the business sectors.

The impairment tests revealed sufficient buffer so that no goodwill write-downs were required.

The disposal of our adhesives business in South Korea resulted in a goodwill write-down of 6 million euros. This impairment loss was recognized under other operating charges (see Note 38, AR page 123).

In the annual impairment tests for trademark rights and other rights with an indefinite useful life, valued at 1,227 million euros, an impairment loss of 4 million euros was identified.

The trademark rights and other rights with an indefinite useful life are established in their markets and will continue to be intensively promoted in the future.

Impairment charges on trademark rights and other rights with definite useful lives in the amount of 23 million euros relate primarily to assets acquired in previous years attributable to the Adhesive Technologies business sector.

(2) Property, plant and equipment

Cost

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	Total
At January 1, 2009	**1,938**	**2,752**	**887**	**136**	**5,713**
Changes in the Group	–	2	1	–	**3**
Additions	60	134	62	88	**344**
Disposals[1]	–92	–230	–85	–3	**–410**
Reclassifications	22	45	36	–113	**–10**
Translation differences	–13	–11	–3	–	**–27**
At December 31, 2009/January 1, 2010	**1,915**	**2,692**	**898**	**108**	**5,613**
Additions	21	74	50	95	**240**
Disposals[2]	–65	–188	–65	–2	**–320**
Reclassifications	50[3]	42	17	–105	**4**
Translation differences	81	67	34	–	**182**
At December 31, 2010	**2,002**	**2,687**	**934**	**96**	**5,719**
[1] of which assets held for sale 2009	–28	–16	–2	–	**–46**
[2] of which assets held for sale 2010	–10	–34	–2	–	**–46**

[3] Of which 6 million euros cost (3 million euros depreciation) arising from reclassification from assets held for sale, as disposal is no longer intended.

Accumulated depreciation

in million euros

	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	Total
At January 1, 2009	822	1,899	630	1	3,352
Changes in the Group	–	–	–	–	–
Write-ups	–	–2	–	–1	–3
Scheduled depreciation	56	158	94	–	308
Impairment losses	19	46	3	1	69
Disposals[1]	–67	–217	–63	–	–347
Reclassifications	3	–4	1	–	–
Translation differences	–5	–7	–1	–1	–14
At December 31, 2009/January 1, 2010	828	1,873	664	–	3,365
Write-ups	–4	–2	–	–	–6
Scheduled depreciation	57	152	91	–	300
Impairment losses	13	25	4	–	42
Disposals[2]	–47	–173	–62	–	–282
Reclassifications	6[3]	1	–4	–	3
Translation differences	29	39	14	–	82
At December 31, 2010	882	1,915	707	–	3,504
[1] of which assets held for sale 2009	–16	–14	–2	–	–32
[2] of which assets held for sale 2010	–7	–32	–2	–	–41

[3] Of which 6 million euros cost (3 million euros depreciation) arising from reclassification from assets held for sale, as disposal is no longer intended.

Net book value

in million euros

	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Payments on account and assets in course of construction	Total
At December 31, 2010	1,120	772	227	96	2,215
At December 31, 2009	1,087	819	234	108	2,248

Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of overheads. Interest charges on borrowings are not included, as Henkel does not currently have at its disposal any qualifying assets in accordance with IAS 23 “Borrowing Costs.” An asset is deemed to qualify where it necessarily takes a substantial period of time to be made ready for its intended use or sale. Cost figures are shown net of investment grants and allowances. There were liabilities secured by mortgages at December 31, 2010 of 30 million euros (previous year: 21 million euros). The periods over which the assets are depreciated are based on their estimated useful lives as set out on AR page 99. Scheduled depreciation and impairment losses recognized are disclosed in the consolidated statement of income according to the functions for which the assets are used.

Of the impairment charges amounting to 42 million euros, further production optimization measures attributable to the Adhesive Technologies business sector in Western Europe accounted for 15 million euros.

(3) Non-current financial assets

Non-current financial assets

in million euros	Dec. 31, 2009	Dec. 31, 2010
Financial receivables from third parties	27	26
Derivatives with positive fair values	189	187
Financial investments	20	22
Miscellaneous non-current financial assets	124	93
Total	360	328

With the exception of derivatives and financial investments, non-current financial assets are always stated at amortized cost. Insofar as risks are identified, valuation allowances are set up. Derivative financial instruments are measured initially at cost and subsequently at their fair values on the balance sheet date (see Note 31, AR pages 115 to 121).

Miscellaneous non-current financial investments include receivables from a trustee arising from deferred compensation of 73 million euros (previous year: 70 million euros) together with receivables from employees and from insurance policies.

Due to their relatively low value, financial investments were included for the first time in fiscal 2010 in non-current financial assets. Shares in affiliated companies and other investments disclosed in financial assets are measured initially at cost and subsequently at their fair values. Shares in affiliated companies and other investments for which the fair value cannot be reliably determined are measured subsequently at amortized cost. Shares in associated companies are accounted for using the at-equity method at the appropriate proportion of their net assets.

(4) Other non-current assets

Other non-current assets comprise miscellaneous tax receivables and, in particular, sundry prepaid expenses and deferred charges.

(5) Deferred taxes

Deferred taxes result from the following factors:

- Timing differences between the balance sheet valuation of an asset or liability and its tax base.
- Unused tax losses which are expected to be utilized.
- Consolidation procedures at Group level.

The allocation of deferred tax assets to the various balance sheet headings is shown in Note 40 (Taxes on income), AR pages 123 to 125.

(6) Inventories

Inventories are stated at purchase or manufacturing cost. Inventories are measured using the FIFO ("first in, first out") method or the weighted average cost formula as appropriate.

Manufacturing cost includes – in addition to direct costs – appropriate proportions of necessary overheads (e.g. the goods inward department, raw materials store, filling and other costs prior to the finished products store), as well as production-related administrative expenses and pension costs for employees engaged in the production process, and production-related depreciation charges. The overhead allowances are determined on the basis of average capacity utilization. Interest charges incurred during the period of manufacture are, however, not included.

Inventories are written down to their net realizable value if, due to lower market prices, this is lower than their book values at the balance sheet date. The impairment in the year under review was 108 million euros (previous year: 113 million euros).

Analysis of inventories

in million euros	Dec. 31, 2009	Dec. 31, 2010
Raw materials and supplies	368	446
Work in process	50	61
Finished products and merchandise (traded goods)	797	950
Payments on account for merchandise	3	3
Total	1,218	1,460

(7) Trade accounts receivable

Trade accounts receivable are due within one year. Valuation allowances are recognized in respect of specific risks as appropriate. Total valuation allowances of 24 million euros (previous year: 32 million euros) have been recognized. As in the previous year, there are no trade accounts receivable which have been sold to a factoring company but are still included as assets in the balance sheet because the risk of default has not been fully transferred to the factor.

(8) Other current financial assets

Other current financial assets

in million euros	Dec. 31, 2009	Dec. 31, 2010
Financial receivables from other investments	2	2
Financial receivables from third parties	38	27
Derivatives with positive fair values	70	144
Marketable securities and time deposits	–	362
Miscellaneous current financial assets	104	173
Total	214	708

With the exception of derivatives, marketable securities and time deposits, other current financial assets are stated at amortized cost, approximating to their fair values. Valuation allowances are recognized if any risks associated with them are identified. Derivative financial instruments are measured initially at cost and subsequently at their fair values on the balance sheet date (see Note 31, AR pages 115 to 121).

The marketable securities and time deposits item relates to highly liquid short-term investments that ensure the availability of monies for financial disposition. Marketable securities and time deposits are accounted for at their fair values at the balance sheet date. Changes in the value are recognized directly in equity (see Note 31, AR page 115).

Miscellaneous current financial assets include the following:

- Amounts due from employees of 10 million euros (previous year: 10 million euros).
- Amounts due from suppliers of 21 million euros (previous year: 21 million euros).
- Amounts due from sureties and guarantee deposits of 32 million euros (previous year: 27 million euros).
- Assets arising from the overfunding of pension obligations amounting to 15 million euros (previous year: 7 million euros).

(9) Other current assets

Other current assets comprise other tax receivables of 134 million euros (previous year: 157 million euros), payments on account of 26 million euros (previous year: 18 million euros) and various prepaid expenses and deferred charges.

(10) Liquid funds/Marketable securities

Liquid funds/Marketable securities

in million euros	Dec. 31, 2009	Dec. 31, 2010
Liquid funds	1,088	1,515
Marketable securities	22	–
Total	1,110	1,515

(11) Assets held for sale

The remeasurement of the assets held for sale at the lower of their carrying amount and fair value less costs to sell resulted in an impairment loss of 3 million euros in the Laundry & Home Care business sector.

(12) Subscribed capital

Subscribed capital

in million euros	Dec. 31, 2009	Dec. 31, 2010
Ordinary bearer shares	260	260
Preferred bearer shares	178	178
Capital stock	**438**	**438**

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

According to Art. 6 (5) of the Articles of Association, the Personally Liable Partner is authorized – with the approval of the Supervisory Board and of the Shareholders' Committee – 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 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

At the Annual General Meeting of Henkel AG & Co. KGaA on April 19, 2010, the Personally Liable Partner was, with the simultaneous withdrawal of the authorization granted in the previous year, authorized to purchase at any time up to April 18, 2015, ordinary or preferred shares in the corporation not exceeding 10 percent of capital stock. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may be transferred to third parties for the purpose of acquiring companies or participating interests 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 also 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 further resolution in General Meeting being required. 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 stock held by the corporation at December 31, 2010 amounted to 4,026,565 preferred shares. This represents 0.92 percent of capital stock and a proportional nominal value of 4.0 million euros. Originally, 992,680 shares were purchased in the year 2000, an amount of 808,120 shares was purchased in 2001 and 694,900 shares were purchased 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 3,460,535 in treasury shares held, with a proportional nominal value of 3.5 million euros (0.79 percent of capital stock). In 2010, the exercise of options led to a reduction of 515,305 in treasury shares held. The proportional nominal value of the capital stock amounted to 0.5 million euros (0.12 percent). The selling prices were based on the stock market prices prevailing at the time of disposal. The total proceeds on disposal of 18.8 million euros were recognized directly in equity.

(13) 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.

(14) 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.

(15) Gains and losses recognized in equity

The items under this heading represent the differences on translation of the financial statements of foreign subsidiary companies and the effects of the revaluation of derivative financial instruments and available-for-sale financial assets recognized in equity. The derivative financial instruments take the form of either cash flow hedges or hedges of a net investment in a foreign entity.

Due in particular to the increase in the US dollar exchange rate versus the euro, the negative difference from currency translation attributable to shareholders of Henkel AG & Co. KGaA decreased by 525 million euros compared to the figure as of December 31, 2009.

(16) Non-controlling interests

Non-controlling interests comprise the shares of third parties in the equity of a number of companies included in the consolidation.

(17) Pension obligations

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 in each country. The level of benefits provided is based, as a rule, on the length of service and earnings of the person entitled.

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 91 million euros (previous year: 111 million euros). In 2010, payments to public sector institutions totaled 46 million euros (previous year: 57 million euros) and payments to private sector institutions totaled 45 million euros (previous year: 54 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.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have allocated 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.

Trends in wages, salaries and retirement benefits

in percent	Germany		USA		Rest of world[1]	
	2009	2010	2009	2010	2009	2010
Discount factor	4.95	4.50	5.25	5.40	5.1	4.6
Income trend	3.25	3.25	4.3	4.25	3.3	3.4
Retirement benefit trend	2.00	2.00	4.3	4.25	2.4	3.0
Expected return on plan assets	6.32	6.19	7.0	5.80	5.9	5.2
Expected increases in costs for medical benefits	–	–	8.0	8.50	8.0	8.0

[1] Weighted average.

Present value of pension obligations at December 31, 2009

in million euros	Germany	USA	Rest of world	Total
At January 1, 2009	**1,826**	**857**	**565**	**3,248**
Changes in the Group	–	–	1	1
Translation differences	–	–30	10	–20
Actuarial gains (–)/losses (+)	216	95	97	408
Current service cost	53	17	24	94
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–4	–1	–5
Interest expense	107	52	33	192
Retirement benefits paid out of plan assets	–5	–42	–30	–77
Employer's payments for pension obligations	–127	–21	–11	–159
Past service cost	–	–	2	2
At December 31, 2009	**2,070**	**924**	**690**	**3,684**
of which unfunded obligations	113	223	86	422
of which funded obligations	1,957	701	604	3,262

Fair value of plan assets at December 31, 2009

in million euros	Germany	USA	Rest of world	Total
At January 1, 2009	**1,511**	**490**	**444**	**2,445**
Changes in the Group	–	–	–	–
Translation differences	–	–20	13	–7
Employer's contributions to pension funds	131	99	48	278
Employees' contributions to pension funds	–	–	1	1
Retirement benefits paid out of plan assets	–5	–42	–30	–77
Expected return on plan assets	96	27	24	147
Actuarial gains (+)/losses (–)	–3	13	43	53
At December 31, 2009	**1,730**	**567**	**543**	**2,840**
Actual return on plan assets	93	40	67	200

Net pension cost 2009

in million euros	Germany	USA	Rest of world	Total
Current service cost	53	17	24	94
Amortization of past service costs	–	1	–1	–
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–4	–1	–5
Interest expense	107	52	33	192
Expected return on plan assets	–96	–27	–24	–147
Net pension cost	**64**	**39**	**31**	**134**

Present value of pension obligations at December 31, 2010

in million euros	Germany	USA	Rest of world	Total
At January 1, 2010	2,070	924	690	3,684
Changes in the Group	–	–	–2	–2
Translation differences	–	73	30	103
Actuarial gains (–)/losses (+)	110	–10	40	140
Current service cost	78	16	26	120
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–16	–2	–18
Interest expense	100	50	34	184
Retirement benefits paid out of plan assets	–130	–48	–37	–215
Employer's payments for pension obligations	–5	–20	–17	–42
Past service cost	–	–1	–	–1
At December 31, 2010	2,223	968	762	3,953
of which unfunded obligations	134	236	97	467
of which funded obligations	2,089	732	665	3,486

Fair value of plan assets at December 31, 2010

in million euros	Germany	USA	Rest of world	Total
At January 1, 2010	1,730	567	543	2,840
Changes in the Group	–	–	–1	–1
Translation differences	–	44	21	65
Employer's contributions to pension funds	213	77	22	312
Employees' contributions to pension funds	–	–	1	1
Retirement benefits paid out of plan assets	–130	–48	–37	–215
Expected return on plan assets	107	36	28	171
Actuarial gains (+)/losses (–)	178	10	26	214
At December 31, 2010	2,098	686	603	3,387
Actual return on plan assets	285	46	54	385

Net pension cost 2010

in million euros	Germany	USA	Rest of world	Total
Current service cost	78	16	26	120
Amortization of past service costs	–	–	–	–
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–16	–2	–18
Interest expense	100	50	34	184
Expected return on plan assets	–107	–36	–28	–171
Net pension cost 2010	71	14	30	115

Reconciliation of overfunding/underfunding to recognized provisions for pension obligations at December 31, 2010

in million euros	Germany	USA	Rest of world	Total
Overfunding/underfunding of obligations	–125	–282	–159	–566
Plan assets reported as net assets	–9	–	–6	–15
Amount not recognized due to asset ceiling	–	–	–9	–9
Past service cost	–	–6	2	–4
Recognized amount	–134	–288	–172	–594

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 each balance sheet date. As of December 31, 2010, accumulated actuarial losses of 1,084 million euros (previous year: 1,159 million euros) were offset against retained earnings.

We have derived the expected return on total plan assets from the weighted expected long-term return on the various asset classes.

Of the amounts added to the provision in 2010, 120 million euros (previous year: 94 million euros) is included in operating profit (pension costs as part of payroll costs, see AR page 126) and an expense of –13 million euros (previous year: –45 million euros) in financial result (see AR page 123). The expenses shown in operating profit and all the releases from provisions are allocated by function, depending on the sphere of activity of the employees. The employer's contributions in respect of state pension provisions are included as "Social security costs and staff welfare costs" under Note 42, AR page 126. In 2010, payments into the plan assets amounted to 312 million euros (previous year: 278 million euros).

Analysis of plan assets[1)]

in million euros

	Dec. 31, 2009		Dec. 31, 2010	
	Fair value	in %	Fair value	in %
Investment funds				
invested in shares	743	26.2	952	28.1
invested in bonds	1,531	53.9	1,826	53.9
invested in cash	265	9.3	360	10.6
Other assets	167	5.9	176	5.2
Cash	134	4.7	73	2.2
Total	**2,840**	**100.0**	**3,387**	**100.0**

1) We have divided the funds disclosed last year as "invested in investment funds" between the individual asset classes in order to give a better overview.

At December 31, 2010, other assets making up the plan assets included the present value of a non-current receivable of 42 million euros (previous year: 43 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 135 million euros (previous year: 102 million euros) against Cognis for indemnification of pension obligations.

In 2010, Henkel AG & Co. KGaA received or claimed indemnification out of the assets held by Henkel Trust e.V. with respect to benefits paid to pensioners in the amount of 113 million euros.

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

in million euros	Germany	USA
Present value of obligation	2,223	968
Increase of 0.5 percentage points	–118	–44
Decrease of 0.5 percentage points	132	49

Effects of a trend change in medical costs

in million euros

	Dec. 31, 2009			Dec. 31, 2010		
	Service cost	Interest expense	Present value of obligations	Service cost	Interest expense	Present value of obligations
Increase in medical costs of 1 percentage point	–	1	9	–	–	8
Decrease in medical costs of 1 percentage point	–	–1	–8	–	–	–7

Additional information

in million euros	2005	2006	2007	2008	2009	2010
Present value of obligations	3,354	3,352	3,118 [1]	3,248 [3]	3,684 [5]	**3,953 [7]**
Fair value of plan assets	2,294	2,564	2,461 [2]	2,445 [4]	2,840 [6]	**3,387 [8]**
Overfunding/underfunding of obligations	–1,060	–788	–657	–803	–844	**–566**
Effect of experience adjustments on pension obligations	–11	–1	–14	5	25	**9**
Effect of experience adjustments on plan assets	29	31	–125	–499	53	**214**

[1] Of which obligations with respect to post-retirement health care: 189 million euros (2007).
[2] Of which plan assets funding obligations with respect to post-retirement health care: 4 million euros (2007).
[3] Of which obligations with respect to post-retirement health care: 212 million euros (2008).
[4] Of which plan assets funding obligations with respect to post-retirement health care: 8 million euros (2008).
[5] Of which obligations with respect to post-retirement health care: 199 million euros (2009).
[6] Of which plan assets funding obligations with respect to post-retirement health care: 7 million euros (2009).
[7] Of which obligations with respect to post-retirement health care: 191 million euros (2010).
[8] Of which plan assets funding obligations with respect to post-retirement health care: 7 million euros (2010).

(18) Non-current provisions

Changes in 2009

in million euros	Balance Jan. 1, 2009	Other changes	Utilized	Released	Added	Balance Dec. 31, 2009
Income tax provisions	177	–22	–	4	1	152
Sundry long-term provisions	127	–13	3	4	73	180
"Global Excellence"	161	–106	17	–	–	38
Combination of the Adhesive Technologies businesses	48	–16	8	6	5	23
Total	**513**	**–157**	**28**	**14**	**79**	**393**

Changes in 2010

in million euros	Balance Jan. 1, 2010	Other changes	Utilized	Released	Added	Balance Dec. 31, 2010
Income tax provisions	152	–34	–	–	1	119
Sundry long-term provisions	180	5	25	4	103	259
"Global Excellence"	38	–	6	–	–	32
Combination of the Adhesive Technologies businesses	23	–9	2	4	3	11
Total	**393**	**–38**	**33**	**8**	**107**	**421**

The amounts recognized as non-current provisions are the best estimates of the expenditures required to settle the present obligations at the balance sheet date. Price increases expected up to the settlement date have been included in the computation. Provisions which include significant interest elements are discounted to the balance sheet date. For obligations in Germany, we have applied a discount rate of between 2.2 and 4.0 percent.

"Global Excellence" is the name given to our worldwide efficiency enhancement program pursued between 2008 and 2010. This initiative involved implementation of a number of individual measures affecting all our business sectors, regions and functions aimed at achieving a steady improvement in our profitability and enhancing our long-term competitiveness. The provisions were utilized as scheduled.

The provisions allocated for the combination of the Adhesive Technologies businesses relate to restructuring charges incurred during the process of integrating the acquired National Starch businesses within the Henkel organization.

Other changes include changes in the Group/acquisitions, movements in exchange rates and adjustments to reflect changes in maturity as time passes.

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

Sundry non-current provisions include identifiable obligations toward third parties, which are costed in full.

Analysis of sundry long-term provisions by function

in million euros	Dec. 31, 2009	Dec. 31, 2010
Sales	8	9
Personnel	83	154
Production and engineering	35	41
Various other obligations	54	55
Total	**180**	**259**

The figure for personnel includes 51 million euros for Special Incentive 2012. This relates to Management Circles 0 to IIb. The total volume of this incentive program is expected to be 85 million euros (see AR page 43).

(19) Non-current borrowings

Maturity structure as of December 31, 2009

Analysis

in million euros	Residual term		
	More than 5 years	Between 1 and 5 years	Dec. 31, 2009 Total
Bonds	1,368	2,040	3,408
(of which amounts secured)			*(1)*
Bank loans and overdrafts[1]	2	13	15
(of which amounts secured)			*(11)*
Other financial liabilities	–	3	3
(of which amounts secured)			*(–)*
Total	**1,370**	**2,056**	**3,426**

[1] Obligations with variable rates of interest or interest rates pegged for less than one year.

Composition of bonds as of December 31, 2009

Bonds

in million euros

Issued by	Type	Nominal	Book value	Market value excluding accrued interest[1]	Market value including accrued interest[1]	Interest rate[2]	Interest fixed
Henkel AG & Co. KGaA	Bond	1,000	1,045	1,052	1,076	4.2500	until 2013[3]
Interest rate swap (3-month Euribor +0.405 %)	*Receiver swap*	*1,000*	*46*	*46*	*69*	*1.1211*	*3 months*
Henkel AG & Co. KGaA	Bond	1,000	994	1,066	1,102	4.6250	until 2014[4]
Interest rate swap (3-month Euribor +2.02 %)	*Receiver swap*	*1,000*	*–2*	*–2*	*34*	*2.7333*	*3 months*
Henkel AG & Co. KGaA	Hybrid bond	1,300	1,360	1,192	1,199	5.3750	until 2015[5]
Interest rate swap (3-month Euribor +1.80 %)	*Receiver swap*	*650*	*19*	*19*	*21*	*2.5152*	*3 months*
Interest rate swap (1-month Euribor +0.955 %)	*Receiver swap*	*650*	*50*	*50*	*53*	*1.4290*	*1 month*

[1] Market value of the bonds derived from the stock market price at December 31, 2009.
[2] Interest rate on December 31, 2009.
[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 10, 2010 (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, 2010 (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 to be fixed next on February 25, 2010 (fair value hedge).

Maturity structure as of December 31, 2010

Analysis

in million euros

	Residual term		
	More than 5 years	Between 1 and 5 years	Dec. 31, 2010 Total
Bonds	–	3,468	3,468
(of which amounts secured)			(–)
Bank loans and overdrafts	2	100	102
(of which amounts secured)			(11)
Other financial liabilities	–	–	–
(of which amounts secured)			
Total	2	3,568	3,570

Composition of bonds as of December 31, 2010

Bonds

in million euros

Issued by	Type	Nominal	Book value	Market value excluding accrued interest[1]	Market value including accrued interest[1]	Interest rate[2]	Interest fixed
Henkel AG & Co. KGaA	Bond	1,000	1,049	1,057	1,081	4.2500	until 2013[3]
Interest rate swap (3-month Euribor +0.405 %)	*Receiver swap*	*1,000*	*55*	*55*	*78*	*1.4351*	*3 months*
Henkel AG & Co. KGaA	Bond	1,000	1,020	1,076	1,112	4.6250	until 2014[4]
Interest rate swap (3-month Euribor +2.02 %)	*Receiver swap*	*1,000*	*24*	*24*	*59*	*3.0453*	*3 months*
Henkel AG & Co. KGaA	Hybrid bond	1,300	1,399	1,320	1,327	5.3750	until 2015[5]
Interest rate swap (3-month Euribor +1.80 %)	*Receiver swap*	*650*	*37*	*37*	*39*	*2.8352*	*3 months*
Interest rate swap (1-month Euribor +0.955 %)	*Receiver swap*	*650*	*69*	*69*	*72*	*1.7590*	*1 month*

[1] Market value of the bonds derived from the stock market price at December 31, 2010.
[2] Interest rate on December 31, 2010.
[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 10, 2011 (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 21, 2011 (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 to be fixed next on January 25, 2011 (fair value hedge).

The ten-year bond issued by Henkel AG & Co. KGaA for 1 billion euros in 2003 with a coupon of 4.25 percent matures in June 2013.

The five-year bond issued by Henkel AG & Co. KGaA for 1 billion euros in 2009 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 percent. 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, 2010, the percentage was 72.23 percent (previous year: 43.06 percent).

The US dollar liabilities of Henkel of America, Inc. are set off against sureties of Henkel AG & Co. KGaA, as the deposit and the loan are with the same lender and of the same maturity. Bank loans and overdrafts set off against sureties amounted to 1,411 million euros.

(20) Non-current financial liabilities

Non-current financial liabilities mainly comprise amounts due to employees of 55 million euros (previous year: 54 million euros) and derivatives at fair values of 69 million euros (previous year: 19 million euros).

(21) Other non-current liabilities

Other non-current liabilities comprise in particular various deferrals and accruals.

(22) Deferred taxes

The provisions for deferred taxes relate to differences between the accounting base in the consolidated balance sheet and the tax base used by the individual companies included in the consolidation to calculate their taxable profits (see Note 40, AR pages 123 to 125).

(23) Current provisions

Changes in 2009

in million euros	At Jan. 1, 2009[1]	Other changes	Utilized	Released	Added	At Dec. 31, 2009
Income tax provisions	343	29	269	26	147	224
Sundry current provisions	783	21	519	39	559	805
"Global Excellence"	129	106	141	–	–	94
Combination of the Adhesive Technologies businesses	52	15	42	–	14	39
Total	**1,307**	**171**	**971**	**65**	**720**	**1,162**

[1] Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses.

Changes in 2010

in million euros	At Jan. 1, 2010	Other changes	Utilized	Released	Added	At Dec. 31, 2010
Income tax provisions	224	26	212	26	315	327
Sundry current provisions	805	–9	496	98	588	790
"Global Excellence"	94	–	45	5	–	44
Combination of the Adhesive Technologies businesses	39	11	22	1	6	33
Total	**1,162**	**28**	**775**	**130**	**909**	**1,194**

The amounts recognized as current provisions are the best estimates of the expenditures required to settle the present obligations at the balance sheet date.

On December 3, 2010, we finally settled a number of open issues and disputes arising from the purchase agreement concluded with Akzo Nobel on April 3, 2008, covering our acquisition of the Adhesives and Electronic Materials businesses from the National Starch & Chemical Company.

The provisions contained in the "Third Amendment Agreement to the Master Implementation Agreement," particularly those pertaining to purchase price determination and adjustment, led to the release of an amount of 63 million euros from other current provisions. This was accompanied by a disposal in the same amount from intangible assets.

Analysis of sundry current provisions by function

in million euros	Dec. 31, 2009	Dec. 31, 2010
Sales	177	157
Personnel	324	416
Production and engineering	56	59
Various other obligations	248	158
Total	**805**	**790**

The provisions for selling expenses relate to commitments arising from sales deductions and risks from onerous contracts. The "Personnel" category includes in particular provisions for headcount adjustment measures and for variable remuneration components (short-term incentives).

(24) Current borrowings

Analysis

in million euros	Dec. 31, 2009 Total	Dec. 31, 2010 Total
Liabilities from bonds	300	219
Commercial papers[1]	71	79
Bank loans and overdrafts	288	233
(of which secured)	*(125)*	*(93)*
Other financial liabilities	1	5
Total	**660**	**536**

[1] From the euro and US dollar commercial paper program (total amount 2.1 billion euros).

The decrease in current liabilities from bonds is due in part to the partial redemption of the floating rate note.

The securities for liabilities to banks relate to mortgages, assigned receivables and inventory pledged.

The market value of current borrowings is the same as their book value, due to their short-term nature.

(25) Trade accounts payable

Trade accounts payable include purchase invoices and accruals for invoices outstanding in respect of goods and services received.

(26) Current financial liabilities

Analysis

in million euros	Dec. 31, 2009 Total	Dec. 31, 2010 Total
Amounts due to non-consolidated affiliated companies	15	15
Derivatives with negative fair values	60	90
Sundry current financial liabilities	70	70
(of which secured)	*(–)*	*(–)*
Total	**145**	**175**

Sundry current financial liabilities include the following:

- Amounts due to customers of 30 million euros (previous year: 23 million euros).
- Commission payable of 3 million euros (previous year: 3 million euros).
- Amounts due to employees of 28 million euros (previous year: 26 million euros).

(27) Other current liabilities

Other current liabilities include sundry deferred income and the following:

- Liabilities in respect of social security of 21 million euros (previous year: 22 million euros).
- Advance payments received of 5 million euros (previous year: 4 million euros).
- Liabilities relating to employees' deductions of 51 million euros (previous year: 41 million euros).
- Other tax liabilities of 83 million euros (previous year: 130 million euros).

(28) Contingent liabilities

Analysis

in million euros	Dec. 31, 2009	Dec. 31, 2010
Liabilities under guarantee and warranty agreements	11	15

(29) Other financial commitments

Operating leases as defined in IAS 17 comprise all forms of rights of use of assets, including rights of use arising from rent and leasehold agreements. Payment obligations under operating lease agreements are shown at the total amounts payable up to the earliest date when they can be terminated. The amounts shown are the nominal values. At December 31, 2010, they were due for payment as follows:

Operating lease obligations

in million euros	Dec. 31, 2009	Dec. 31, 2010
Due in the following year	44	58
Due within 1 to 5 years	89	127
Due after 5 years	37	36
Total	**170**	**221**

In the course of the 2010 fiscal year, 67 million euros became due for payment under operating leases (previous year: 51 million euros).

As of the end of 2010, commitments arising from orders for property, plant and equipment amounted to 36 million euros (previous year: 23 million euros). As in the previous year, there were no purchase commitments arising from toll manufacturing contracts.

Payment commitments under the terms of agreements for capital increases and share purchases contracted prior to December 31, 2010 amounted to 5 million euros (previous year: 18 million euros).

(30) Capital management

The aims of capital management are derived from the financial strategy of the Group. These include ensuring liquidity and access to the capital market at all times.

To achieve the capital management targets, the Group seeks to optimize its capital structure, manage its dividend policy, take equity measures, make acquisitions and divestments and reduce debt.

In the past financial year, the dividend paid for ordinary and preferred shares was unchanged compared to the previous year. The free cash flow not used for dividend payments (see AR page 92) was essentially used to reduce net debt and for allocations to pension funds. Short-term financing requirements were met by commercial papers and bank loans. The bonds outstanding serve to cover long-term financing requirements.

Our financial management is based on the key performance indicators set out in our financial strategy. In 2010 the interest coverage ratio was 12.8 (previous year: 8.7), while operating debt coverage was 71.4 percent (previous year: 41.8 percent). The equity ratio was 45.4 percent (previous year: 41.4 percent). For further details, see the financial ratios section in the Group management report on AR pages 54 and 55. Due to the international nature of its business, the Group is required to comply with different legal and regulatory provisions in different regions. The status of these regulations and any developments are monitored at the local level as well as centrally, with changes being taken into account for the purpose of capital management.

(31) Derivatives and other financial instruments

Treasury guidelines and systems

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 control 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 exclusively 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 initial recording of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multi-bank 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 so that the risk positions and the success of the risk management in each company, country and group of countries is regularly determined on a mark-to-market basis and compared to a benchmark.

Recognition and measurement of financial instruments

Financial instruments are initially recorded at cost on the day of trading. The marketable securities and time deposits are classified as available for sale and measured at fair value as of the reporting date, based without exception on quoted market prices (level 1 of the fair value hierarchy). Consequently, the fair values adopted correspond to the book values as of December 31, 2010. Changes in value are recognized in equity unless there is a cause for impairment, in which case the impairment losses are recognized under profit or loss. Other investments/shares in affiliated companies that are also classified as available for sale are measured at amortized cost, as their fair value cannot be reliably determined.

Specific financial instruments by category

in million euros	Dec. 31, 2009	Dec. 31, 2010
Marketable securities and time deposits	**22**	**362**
– at fair value through profit or loss	–	–
– at fair value recognized in equity	22	362
Other investments/Shares in affiliated companies	**19**	**21**
– at fair value through profit or loss	–	–
– at amortized cost	19	21

We have no financial assets under the "held to maturity" category. Like all other financial assets, long-term loans are designated as loans and receivables, and stated at amortized cost.

The carrying amount of trade accounts receivable, other current financial assets and liquid funds corresponds to their fair value due to their short-term nature. Financial liabilities with a fixed maturity are measured at amortized cost using the effective interest method. Financial liabilities in respect of which a hedging transaction has been entered into, and which meet the conditions set out in IAS 39 regarding a hedging relationship, are measured under hedge accounting rules. The fair value of trade accounts payable and other current liabilities corresponds to their book value.

All derivative financial instruments entered into by the Group are recorded initially at cost and subsequently at their fair values on the balance sheet date. The accounting treatment of gains and losses on derivative financial instruments on remeasurement to fair value depends on whether the conditions set out in IAS 39 with respect to hedge accounting have been met.

Hedge accounting is not used for the majority of derivative financial instruments. The changes in the fair value of those derivatives which, from an economic point of view, represent effective hedges in line with corporate strategy, are recognized in profit or loss. These are virtually matched by changes in the fair value of the hedged underlying transactions.

Under hedge accounting, derivative financial instruments are designated either as a hedge of the exposure to changes in the fair value of an underlying transaction (fair value hedge), as a hedge of the exposure to variability in future cash flows (cash flow hedge) or as a hedge of a net investment in a foreign entity.

Fair value hedges: The gain or loss from remeasuring derivative financial instruments used to hedge the exposure to changes in fair value is recognized in the financial result, together with the gain or loss on the hedged item. The receiver interest rate swaps, referred to under Note 19 on AR pages 111 and 112, hedging the interest rate risk of bonds issued by Henkel AG & Co. KGaA, are the only derivatives designated as fair value hedges. To determine the change in fair value of the bonds (see Note 19, AR pages 111 and 112), only that portion of the bond which relates to the interest rate risk is taken into account.

Interest rate hedging instruments at the balance sheet date had positive fair values of 185 million euros (previous year: 113 million euros) excluding accrued interest. The changes in fair value of the receiver interest rate swaps arising from market interest rate risks amounted to 72 million euros (previous year: 48 million euros). The corresponding changes in fair value of the hedged bonds amounted to –69 million euros (previous year: –47 million euros).

Cash flow hedges: Changes in the fair value of derivatives used to hedge the exposure to variability in cash flows are recognized directly in equity. The portion of the gain or loss on the derivative that is determined to be ineffective in respect of the risk being hedged is reported directly in the consolidated statement of income. If a firm commitment or an expected and highly probable future transaction results in the recognition of an asset or a liability, the accumulated gains or losses on the hedging instrument that were recognized directly in equity are included in the initial measurement of the asset or liability. Otherwise, the amounts recognized directly in equity are included in the statement of income in those reporting periods in which the hedged transaction impacts earnings.

Cash flow hedges (after tax)

in million euros	At January 1	Additions (taken to equity)	Disposals (taken to profit or loss)	At December 31
2010	–276	–75	–	–351
2009	–265	–11	–	–276

The opening balance relates to unsettled interest rate hedges of the US dollar liabilities of Henkel of America, Inc., and forward exchange transactions entered into and settled in previous years. The addition of –75 million euros is due in part to –46 million euros arising from the acquisition of the National Starch businesses. The interest rate hedge of the US dollar liabilities of Henkel of America, Inc. accounts for an addition of –29 million euros after taxes on income. The fair value of the interest rate hedges of the US dollar liabilities of Henkel of America, Inc. amount to –69 million euros. The amount attributable to ineffectiveness in the year under review of 0.4 million euros was expensed under financial result. The cash flows from the transactions hedged at December 31, 2010 are expected in June 2013 and March 2014.

Hedge of a net investment in a foreign entity: The accounting treatment of hedges of a net investment in a foreign entity is similar to that applied to cash flow hedges. Hedges of a net investment in a foreign entity apply to forward exchange contracts that are used to hedge the exposure to currency translation risks in foreign entities.

The items recognized in equity relate to translation risks arising from net investments in Swiss francs (CHF) and US dollars (USD) for which the associated hedges were entered into and settled in previous years.

In the past financial year, no hedges of a net investment in a foreign entity were entered into. The addition of 16 million euros relates to the acquisition of the National Starch businesses. No amounts were transferred in the course of the year from equity to profit or loss and no ineffective portions were included in the consolidated statement of income.

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

in million euros	At January 1	Additions (taken to equity)	Disposals (taken to profit or loss)	At December 31
2010	53	16	–	69
2009	53	–	–	53

Fair values of derivative financial instruments

The fair values of derivative financial instruments are based on observable market data (level 2 of the fair value hierarchy). The fair value of forward exchange contracts is determined on the basis of the quoted reference exchange rates of the European Central Bank as of the balance sheet date after allowing for forward premiums and discounts on the contracted exchange rate for the remaining term of the contract. Currency options are measured using market quotations or recognized option pricing models. The interest rate hedging instruments are measured on the basis of the discounted future cash flows expected based on market interest rates applicable to the remaining term of the contracts. These are shown in the table below for the four most important currencies. In each case, these are the interest rates quoted on the inter-bank market at December 31.

Interest rates in percent per annum

At December 31	EUR		USD		JPY		GBP	
Maturities	2009	2010	2009	2010	2009	2010	2009	2010
3 months	0.50	0.96	0.47	0.48	0.45	0.11	0.71	0.82
6 months	0.93	1.23	0.68	0.40	0.30	0.44	0.93	1.27
1 year	1.21	1.51	1.12	0.88	0.47	0.71	1.58	1.52
2 years	1.84	1.53	1.38	0.82	0.48	0.38	2.01	1.51
5 years	2.80	2.50	2.99	2.23	0.70	0.57	3.45	2.67
10 years	3.65	3.35	4.07	3.56	1.44	1.19	4.21	3.65

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

In measuring derivative financial instruments, the credit risk of the counterparty is taken into account in the form of a lump-sum adjustment to the fair values, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2010 amounts to 0.8 million euros.

Derivative financial instruments with a positive fair value at the balance sheet date are included in financial assets and those with a negative fair value are included in financial liabilities, depending on their fair value and their maturity on the reporting date.

Most of the forward exchange contracts and currency options serve to hedge risks arising from trade accounts receivable and Group financing in US dollars.

The following positions were held at the balance sheet date:

Derivative financial instruments

At December 31	Nominal value		Positive fair value[3]		Negative fair value[3]	
in million euros	2009	2010	2009	2010	2009	2010
Forward exchange contracts[1]	2,450	**2,396**	70	**77**	–60	**–89**
(of which for hedging loans within the Group)	*(2,091)*	***(1,848)***	*(68)*	***(75)***	*(–56)*	***(–83)***
Interest rate swaps	4,688	**4,797**	177	**248**	–19	**–70**
(of which: designated as fair value hedge)	*(3,300)*	***(3,300)***	*(177)*	***(248)***	*(–)*	***(–)***
(of which: designated as cash flow hedge)	*(1,388)*	***(1,497)***	*(–)*	***(–)***	*(–19)*	***(–70)***
Other interest rate hedging instruments	1,000	**500**	11	**2**	–	**–**
(of which designated for hedge accounting)	*(–)*	***(–)***	*(–)*	***(–)***	*(–)*	***(–)***
Commodity futures[2]	16	**44**	1	**4**	–	**–**
(of which designated for hedge accounting)	*(–)*	***(–)***	*(–)*	***(–)***	*(–)*	***(–)***
Total derivative financial instruments	**8,154**	**7,737**	**259**	**331**	**–79**	**–159**

[1] Maturity shorter than 1 year.
[2] Maturity shorter than 1 year in 2010; maturity longer than 1 year in 2009.
[3] Fair values including accrued interest.

Risks arising from financial instruments

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. There were no major risk clusters in the year under review. For more details on the management of financial risks, please refer to the risk report on AR pages 78 to 82.

Credit risk

In the course of its business activities with third parties, the Henkel Group is exposed to global credit risk in various lines of business. The risk arises if a contracting party fails to meet its obligations. The maximum credit risk is represented by the book value of the financial assets recognized in the balance sheet. In principle, 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 employing 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, hedging measures, for instance payment default insurance policies, are implemented on a selective basis for particular countries and customers.

In financial investments and derivatives trading with German and international banks, we only enter into transactions with counterparties of the highest financial standing. Financial investments are generally undertaken for periods of less than one year. To minimize the credit risk, netting arrangements are agreed with counterparties and investment limits are set. These limits are based on the credit rating of the counterparty and are regularly monitored and adjusted. Besides relevant ratings, certain other indicators such as the pricing of credit default swaps (CDS) by the 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 hedge the fair values of contracted derivatives.

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

As in the previous year, the book value of receivables and loans which were overdue or impaired and for which new due dates have been negotiated was less than 1 million euros.

Age analysis of non-impaired loans and receivables

Analysis

in million euros	Less than 30 days	30 to 60 days	61 to 90 days	91 to 180 days	Total
At December 31, 2010	**96**	**28**	**10**	**3**	**137**
At December 31, 2009	137	26	12	3	178

In 2010, we made specific allowances for bad debts of 35 million euros (previous year: 36 million euros) and general allowances for bad debts of 6 million euros (previous year: 7 million euros) in respect of loans and receivables.

Liquidity risk

Because of the use of long-term financing instruments and the availability of additional liquidity reserves, the liquidity risk of the Henkel Group can be regarded as very low. The Henkel Group has at its disposal pledged credit lines of 2.1 billion euros to ensure its liquidity and financial flexibility at all times. These credit lines were contracted to secure the commercial paper program. The individual subsidiaries of the Henkel Group additionally have at their disposal committed bilateral loans of 0.4 billion euros.

Our credit rating is regularly assessed by the rating agencies Standard & Poor's and Moody's.

Cash flows from financial liabilities

in million euros

	Dec. 31, 2009 Book value	Residual term: Up to 1 year	Residual term: Between 1 and 5 years	Residual term: More than 5 years	Dec. 31, 2009 Total cash flow
Bonds[1]	**3,708**	394	2,593	1,378	**4,365**
Commercial papers[2]	**71**	71	–	–	**71**
Bank loans and overdrafts	**303**	291	17	6	**314**
Trade accounts payable	**1,885**	1,885	–	–	**1,885**
Sundry financial instruments[3]	**156**	86	32	38	**156**
Original financial instruments	**6,123**	**2,727**	**2,642**	**1,422**	**6,791**
Derivative financial instruments	**79**	**86**	**–6[4]**	**–**	**80**
Total	**6,202**	**2,813**	**2,636**	**1,422**	**6,871**

[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 amount: 2.1 billion euros).
[3] Sundry financial instruments include amounts due from employees, and finance bills.
[4] Positive effect due to inclusion of cash flows from accrued interest.

Cash flows from financial liabilities

in million euros

	Dec. 31, 2010 Book value	Residual term: Up to 1 year	Residual term: Between 1 and 5 years	Residual term: More than 5 years	Dec. 31, 2010 Total cash flow
Bonds[1]	**3,687**	313	3,736	–	**4,049**
Commercial papers[2]	**79**	79	–	–	**79**
Bank loans and overdrafts	**335**	240	100	2	**342**
Trade accounts payable	**2,308**	2,308	–	–	**2,308**
Sundry financial instruments[3]	**143**	87	26	37	**150**
Original financial instruments	**6,552**	**3,027**	**3,862**	**39**	**6,928**
Derivative financial instruments	**159**	**119**	**41**	**–**	**160**
Total	**6,711**	**3,146**	**3,903**	**39**	**7,088**

[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 amount: 2.1 billion euros).
[3] Sundry financial instruments include amounts due from employees, and finance bills.

Market risk
The market risk arising from financial instruments principally consists of currency translation and interest rate risks, and also commodity price risks. Market risk is monitored by means of sensitivity analyses.

Currency risk
The global nature of our business activities results in a huge number of cash flows in different currencies. Hedging the resulting exchange rate risks is a significant part of our centralized risk management system. 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. More detailed information about our currency management objectives and procedures are given in the Group management report on AR page 81.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2010 amounted to 17 million euros after hedging (previous year: 12 million euros). 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. Fluctuations 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, with a forecasting horizon of up to nine months.

The value-at-risk shown represents 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 its international nature, 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 and the Ukrainian hryvnia.

Interest rate risk
The Henkel Group obtains the majority of the cash it requires from 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 by selecting appropriate maturities and through 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 taken in interest management relate to the bonds issued to secure Group liquidity, and other financial instruments. 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. A major portion of the financing of Henkel of America, Inc. in US dollars has been converted from floating to fixed interest rates through interest rate swaps. Conversely, the coupon of the euro-denominated bonds issued by Henkel was changed from fixed to floating, also through the vehicle of interest rate swaps. As a result, the net interest position comprises a structured mix of fixed US dollar and floating euro interest rates.

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	Dec. 31, 2009	Dec. 31, 2010
Based on an interest rate rise of 100 basis points	64	52
of which:		
Cash flow through profit and loss	14	10
Fair value recognized in equity through comprehensive income	50	42

The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the main financial instruments which bear interest at a variable rate at the balance sheet date. Fixed-rate instruments and interest hedging instruments are deducted from net borrowings (comprising liquid funds, marketable securities and current and non-current borrowings). The interest rate risk figures shown in the table are based on this calculation at the relevant balance sheet date, assuming a parallel shift in the interest curve of 100 basis points. The analysis of fair value risk also assumes a parallel shift in the interest curve of 100 basis points, with the hypothetical loss or gain of the underlying interest rate derivatives at the balance sheet date being calculated accordingly. Interest rate risks arise mainly from interest-bearing financial instruments and interest rate derivatives in euros and in US dollars.

Commodity price risk

The volatility of raw material prices impacts Group business. Depending on the market situation, the fluctuations in purchase prices for raw materials can be substantial and so affect the financial position and results of operations of the corporation. The risk management strategy put in place by the Group management for coping with and safeguarding against the raw material price risk is described in more detail in the risk management report on AR page 79.

As a small part of the risk management strategy, cash-settled commodity futures are entered into on the basis of forecast purchasing requirements in order to hedge commodity price fluctuations. 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 recognized. This can lead to losses recognized in profit or loss. Developments in fair values and the resultant risks are continuously monitored.

Notes to the consolidated statement of income

(32) Sales and principles of income realization

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 and transfer of risk. 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 established.

An analysis of sales by business sector and geographical region is shown in the Group segment and regional reports on AR pages 93 and 94.

(33) Cost of sales

Cost of sales comprises the cost of products and services sold and the purchase cost of merchandise (traded goods) 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 and depreciation of intangible assets and property, plant and equipment.

(34) Marketing, selling and distribution expenses

In addition to marketing organization and distribution costs, this item comprises, in particular, advertising, sales promotion and market research costs. Also included here are the costs of technical advisory services for customers and amounts written off accounts receivable.

(35) Research and development expenses

Research expenses may not be recognized as an asset. Development costs 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 expenditure can be attributed to distinct project phases. Currently, the criteria set out in IAS 38 "Intangible Assets" for recognizing development costs 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.

(36) Administrative expenses

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

(37) Other operating income

Other operating income

in million euros	2009	2010
Income from release of provisions[1]	38	68
Gains on disposal of non-current assets	10	19
Insurance claim payouts	8	12
Write-ups of non-current assets	3	6
Income from release of valuation allowances for doubtful debts	2	3
Profits on sale of businesses	–	3
Sundry operating income	79	105
Total	**140**	**216**

[1] Including income from the release of provisions for pension obligations (curtailment gains) of 18 million euros (previous year: 7 million euros).

Other operating income relates to a number of individual items arising from ordinary operating activities, such as rent income, grants and subsidies, bonus payments received and similar income, and in the year under review also included a settlement in respect of licensing rights of 15 million euros attributable to the Laundry & Home Care business sector.

(38) Other operating charges

Other operating charges

in million euros	2009	2010
Losses on disposal of non-current assets	22	14
Goodwill impairment losses	46	6
Write-downs of miscellaneous assets	–	1
Sundry operating expenses	97	88
Total	165	109

Other operating charges relate to a number of individual items arising from ordinary operating activities, such as contractual termination severance payments, compensation settlements and similar expenses, and in the year under review also included charges of 3 million euros arising from the sale of our solder bumps (soldering spheres) business in Taiwan.

(39) Financial result

Financial result

in million euros	2009	2010
Net result from other investments	–4	1
Net interest	–191	–172
Total	–195	–171

Net result from other investments

in million euros	2009	2010
Income from other investments	1	–
Other	–5	1
Total	–4	1

Net interest

in million euros	2009	2010
Interest and similar income from third parties[1]	47	56
Other financial income	23	8
Total interest income	70	64
Interest charges payable to third parties[1]	–162	–176
Other financial charges	–54	–47
Interest expense for pension provisions less expected return on plan assets[2]	–45	–13
Total interest expense	–261	–236
Total	–191	–172

[1] Including interest income and interest expense, both in the amount of 39 million euros, in respect of mutually offset cash deposits and loans reported on a net basis.
[2] Interest expense of 184 million euros and expected interest income of 171 million euros (previous year: interest expense of 192 million euros and expected interest income of 147 million euros).

Included in the net interest expense is the net result from the translation of foreign-currency accounts receivable and payable in the amount of 58 million euros (previous year: 22 million euros), and the net result from the measurement to fair value and realization of derivative hedging instruments in the amount of –92 million euros (previous year: –57 million euros).

(40) Taxes on income

Earnings before taxes on income and analysis of taxes

in million euros	2009	2010
Earnings before tax	885	1,552
Current taxes	239	424
Deferred taxes	18	–15
Taxes on income	257	409

Main components of tax expense and income

in million euros	2009	2010
Current tax expense/income in the reporting year	259	432
Current tax adjustments for prior years	–20	–8
Deferred tax expense/income from temporary differences	47	–25
Deferred tax expense/income from unused tax losses	–7	38
Deferred tax expense/income from tax credits	–12	3
Deferred tax expense/income from changes in tax rates	3	6
Increase/decrease in valuation allowances on deferred tax assets	–13	–37

In accordance with IAS 12, deferred tax assets and liabilities are recognized with respect to temporary differences between the balance sheet valuation of an asset or liability and its tax base, unused tax losses and special tax-allowable items, and with respect to consolidation procedures affecting earnings.

Deferred taxes are calculated on the basis of the tax rates that are applicable or anticipated in the individual countries at the time of realization or utilization. In Germany there is a uniform corporation tax rate of 15 percent plus a solidarity tax of 5.5 percent. After taking into account trade tax, this yields to an overall tax rate of 31 percent.

Deferred tax assets are measured where it is likely that sufficient taxable income will be generated in future to realize the corresponding benefit.

Deferred tax assets and deferred tax liabilities are set off if they exist in relation to the same tax authority and relate to the same tax creditor.

The deferred tax assets and liabilities stated at December 31, 2010 relate to the following balance sheet items, unused tax losses and tax credits:

Allocation of deferred taxes

in million euros	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Intangible assets	144	122	643	669
Property, plant and equipment	24	23	84	86
Financial assets	29	1	6	7
Inventories	36	41	4	5
Other receivables and miscellaneous assets	56	63	94	144
Special tax-allowable items	–	–	53	49
Provisions	446	409	6	6
Liabilities	104	188	14	11
Tax credits	14	11	–	–
Unused tax losses	137	106	–	–
	990	964	904	977
Amounts netted	–537	–560	–537	–560
Valuation allowances	–131	–46	–	–
Balance sheet figures	322	358	367	417

The deferred tax assets amounting to 409 million euros (previous year: 446 million euros) relating to provisions in the balance sheet result primarily from recognition and measurement differences with respect to pension obligations.

The deferred tax liabilities amounting to 669 million euros (previous year: 643 million euros) relating to intangible assets are chiefly attributable to business combinations such as the acquisition of the National Starch businesses in 2008.

Deferred taxes have not been recognized with respect to unused tax losses of 144 million euros (previous year: 347 million euros), as it is not sufficiently probable that taxable gains or benefits will be available against which they may be utilized.

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 13 million euros (previous year: 11 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.

Expiry dates of unused tax losses and tax credits

	Unused tax losses		Tax credits	
	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2009	Dec. 31, 2010
Must be utilized within				
1 year	36	10	–	–
2 years	63	23	–	–
3 years	39	19	–	–
more than 3 years	310	364	14	11
May be carried forward without restriction	169	167	–	–
Total	617	583	14	11

Of unused tax losses lapsing beyond three years, 220 million euros relate to loss carry-forwards of US subsidiaries in respect of state taxes (tax rate about 5 percent).

Equity-reducing deferred taxes of 33 million euros were recognized in 2010 (previous year: equity-increasing amount of 78 million euros). Of this figure, 21 million euros is due to actuarial gains and losses on pension obligations and 12 million euros to gains and losses from cash flow hedges.

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 estimated 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	2009	2010
Earnings before taxes on income	885	1,552
Tax rate (including trade tax) on income of Henkel AG & Co. KGaA	31 %	31 %
Estimated tax charge	274	481
Tax reductions due to differing tax rates abroad	–70	–64
Tax increases/reductions for prior years	7	9
Tax increases/reductions due to changes in tax rates	3	6
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	–9	–37
Tax reductions due to tax-free income and other items	–22	–46
Tax increases due to non-deductible expenses	74	60
of which		
Non-deductible write-downs of intangible assets	14	2
Taxation effects arising from additions and reductions for local taxes	13	15
Non-deductible and non-offsettable withholding tax	14	12
Other non-deductible expenses	33	31
Tax charge disclosed	257	409
Effective tax rate	29.0 %	26.4 %

The decrease in the effective tax rate in 2010 to 26.4 percent (previous year: 29.0 percent) is primarily due to the release of value allowances on deferred tax assets with respect to unused losses and temporary differences. Due to Group-internal optimization measures and the expectation of positive business development, it is expected that future taxable income will be sufficient to realize these deferred tax assets. Moreover, in 2009, the effective tax rate was impacted by non-deductible write-downs of intangible assets.

Deferred tax liabilities relating to the retained earnings of foreign subsidiaries have not been calculated due to the fact that these earnings are available to the entities concerned for their own use.

(41) Non-controlling interests

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

Their share of net income amounted to 31 million euros (previous year: 31 million euros) and that of losses to 6 million euros (previous year: 5 million euros).

Supplementary information on the consolidated balance sheet /consolidated statement of income

(42) Payroll cost

Payroll cost[1)]

in million euros	2009	2010
Wages and salaries	1,888	2,012
Social security contributions and staff welfare costs	333	331
Pension costs	161	144
Total	2,382	2,487

1) Excluding personnel-related restructuring charges of 128 million euros (2009: 86 million euros).

Share-based payment plans

The objective of the Henkel Stock Incentive Plan introduced in 2000 is to provide additional motivation for about 700 senior executive personnel around the world. Participants in the plan are granted option rights to subscribe for Henkel preferred shares, which may be exercised for the first time once a vesting period of three years has elapsed; the exercise of rights must be within a period not exceeding five years after completion of the vesting period. Under the plan, rights were issued annually on a revolving basis, the relevant terms being revised each year by the Management Board and Shareholders' Committee. In 2004, options were issued for the last time, in this case to the members of the Management Board.

Each option granted originally carried the right to acquire up to eight Henkel preferred shares. After the 1:3 share split on June 18, 2007, the number of preferred shares per option right was trebled. The exact number of shares that can be bought per option at a specific price depends on the extent to which the performance targets are met. One target is based on absolute performance – the performance of the Henkel preferred share price. The other takes into account relative performance, comparing the movement in value of the Henkel preferred share with that of the Dow Jones Euro Stoxx (600) index. For both performance targets, the average market price of the Henkel preferred share at the date of issue is compared to the average market price three years later. The average market price is calculated in each case on the basis of 20 stock exchange trading days after the Annual General Meeting. The calculation of relative performance takes account of dividend payments and other rights and benefits as well as movements in the share price (total shareholder return). The subscription rights attached to an option are split into two categories. Taking the share split into account, up to 15 subscription rights can be exercised by reference to the absolute performance and up to nine subscription rights by reference to the relative performance.

Option rights are granted to members of the Management Board and corporate senior vice presidents, and to managers of comparable status within German and foreign affiliated companies, on condition that they make a direct investment of three preferred shares for each option right.

The total value of stock options granted to senior executive personnel at the grant date is determined using an option pricing model. The total value of the stock options calculated in this way is treated as a payroll cost spread over the period in which the corporation receives the service of the employee. For financial years since 2005, this cost in respect of the option rights granted in 2003 (tranche 4) and 2004 (tranche 5) is required to be expensed.

The table shows the number of option rights granted per tranche and the number of shares in the various tranches, taking into account the 1:3 share split of June 18, 2007. The vesting period has now expired for all the tranches. Because the exercise period for the third tranche expired on May 16, 2010, option rights that were not exercised have lapsed.

In 2004 for the fourth tranche and in 2007 for the fifth tranche, the Management Board decided to avail itself of the right to pay in cash the gain arising on the exercise of the options to the employees participating in the plan. The fifth tranche is treated as if it had been paid in shares.

Option rights/Subscribable preferred shares

in number of shares/options	3rd tranche	4th tranche	5th tranche	Total
At January 1, 2010	**21,746**	**43,228**	**7,200**	**72,174**
expressed in preferred shares	*195,715*	*648,420*	*151,200*	***995,335***
Options granted	–	105	–	**105**
expressed in preferred shares	–	*1,575*	–	***1,575***
Options exercised[1]	18,881	20,507	–	**39,388**
expressed in preferred shares	*169,930*	*307,600*	–	***477,530***
Options forfeited	–	1,770	–	**1,770**
expressed in preferred shares	–	*26,550*	–	***26,550***
Lapsed options	2,865	–	–	**2,865**
expressed in preferred shares	*25,785*	–	–	***25,785***
At December 31, 2010	**–**	**21,056**	**7,200**	**28,256**
expressed in preferred shares	–	*315,845*	*151,200*	***467,045***
of which held by the Management Board	–	2,900	7,200	**10,100**
expressed in preferred shares	–	*43,500*	*151,200*	***194,700***
of which held by other senior executives	–	18,156	–	**18,156**
expressed in preferred shares	–	*272,345*	–	***272,345***

[1] Average price at exercise date = 40.28 euros.

At December 31, 2010, there is a provision of 8.3 million euros (previous year: 11.6 million euros) in respect of the fourth tranche. The amount released of 3.3 million euros increased earnings for the period. The intrinsic value of the exercisable options in the fourth tranche at the end of the financial year is 8.5 million euros (previous year: 11.5 million euros).

The costs are calculated using the Black-Scholes option pricing model, modified to reflect the special features of the Stock Incentive Plan. The cost calculation was based on the following factors:

Black-Scholes option pricing model

		On issue 3rd tranche	At Dec. 31, 2010 4th tranche	On issue 5th tranche
Exercise price (before share split)	in euros	74.67	57.66	71.28
Exercise price (after share split)	in euros	24.89	19.22	23.76
Expected volatility of the preferred share price	in %	32.4	22.4	26.6
Expected volatility of the index	in %	22.4	–	18.6
Expected lapse rate	in %	3	–	–
Risk-free interest rate	in %	4.78	0.52	3.96

The expected volatility rates are based on the historic volatility of the Henkel preferred share and of the Dow Jones Euro Stoxx (600) index. The period to which the estimate of the volatility of the Henkel share relates starts at the beginning of the remaining term of the option tranche and finishes on the date on which the tranche is valued.

The performance period relating to the third tranche ended on May 16, 2005, that of the fourth tranche on May 11, 2006, and that of the fifth tranche on May 15, 2007. Thereafter, at any time during a five-year period, the beneficiaries of the third tranche may exercise their right to acquire nine Henkel preferred shares per option. In the case of the fourth tranche, the option holders may acquire 15 shares per option and in the case of the fifth tranche 21 shares per option. The allocation for the fourth tranche was made solely as a result of the absolute performance target. The absolute performance targets were not met for the third tranche and the relative performance target was not met for the fourth tranche. The allocation for the fifth tranche was 15 shares as a result of absolute performance and six shares as a result of relative performance. The option rights for the third tranche lapsed on May 16, 2010 as per the prescribed deadline. The outstanding option rights for tranches four and five may be exercised at any time, except during blocked periods which in each case cover the four weeks prior to the reporting dates of the corporation.

Global Cash Performance Units (CPU) Plan

Since the end of the Stock Incentive Plan, those eligible for that plan, the senior executive personnel of the Henkel Group (excluding members of the Management Board) have been part of the Global CPU Plan, which enables them to participate in any increase in price of the Henkel preferred share. Cash Performance Units (CPUs) are awarded on the basis of the level of achievement of certain defined targets. They grant the beneficiary the right to receive a cash payment at a fixed point in time. The CPUs are granted on condition that the member of the Plan is employed for three years by Henkel AG & Co. KGaA or one of its subsidiaries in a position senior enough to qualify to participate and that he or she is not under notice during that period. This minimum period of employment pertains to the calendar year in which the CPUs are granted and the two subsequent calendar years.

The number of CPUs granted depends not only on the seniority of the officer, but also on the achievement of set target figures. For the periods to date, these targets have been operating profit (EBIT) and net income attributable to shareholders of Henkel AG & Co. KGaA. The value of a CPU in each case is the average price of the Henkel preferred share as quoted 20 stock exchange trading days after the Annual General Meeting following the performance period. In the case of exceptional increases in the share price, there is an upper limit or cap. After the 1:3 share split of June 18, 2007, the number of CPUs was trebled.

The total value of CPUs granted to senior management personnel is remeasured at each balance sheet date and treated as a payroll cost over the period in which the plan member provides his or her services to Henkel. The fourth tranche, which was issued in 2007, became due for payment in July 2010. Across the world, at December 31, 2010, the CPU Plan comprised 318,220 CPUs issued in the fifth tranche in 2008 (expense: 4.9 million euros), 349,769 CPUs from the sixth tranche issued in 2009 (expense: 5.4 million euros) and 462,814 CPUs from the seventh tranche issued in the reporting year (expense: 7.1 million euros). The corresponding provision amounted to 32.5 million euros (previous year: 27.1 million euros).

Cash Performance Units Program

Effective as from fiscal 2010, the compensation system for members of the Management Board has changed. From 2010, they receive as a long-term incentive (LTI) a variable cash payment related to the corporation's long-term financial performance as measured by the increase in earnings per share (EPS) over a period of three years (performance period). For details, please refer to the remuneration report on AR pages 31 to 39.

In fiscal 2005 to 2009, the members of the Management Board received an LTI in the form of a cash payment based on preferred share performance. Each member of the Management Board was allocated, as a function of the absolute increase in the price of the Henkel preferred share and the increase in the earnings per Henkel preferred share (EPS) achieved over a period of three years (performance period), the cash equivalent of up to 10,800 preferred shares – so-called Cash Performance Units – per financial year (= tranche). On expiry of the performance period, the number and the value of the Cash Performance Units (CPUs) due are determined and the resulting tranche income is paid in cash. Each member of the Management Board participating in a tranche was required to acquire a personal stake by investing in Henkel preferred shares to the value of 25 percent of the gross tranche payout, and to place these shares in a blocked custody account with a five-year drawing restriction.

In the event of an absolute rise in the share price during the performance period of at least 15 percent, 21 percent or 30 percent, each participant is allocated 1,800, 3,600 or 5,400 CPUs respectively. To calculate the increase in the share price, the average price in January of the year of issue of a tranche is compared with the average price in January of the third financial year following the year of issue (reference price). If, during the performance period, earnings per preferred share increase by at least 15 percent, 21 percent or 30 percent, each participant is allocated a further 1,800, 3,600 or 5,400 CPUs respectively. To calculate the increase in earnings per preferred share, the earnings per preferred share of the financial year prior to the year of issue is compared with the earnings per preferred share of the second financial year after the year of issue. The amounts included in the calculation of the increase are, in each case, the earnings per preferred share as disclosed in the consolidated financial statements of the relevant financial years, adjusted for exceptional items.

The monetary value per CPU essentially corresponds to the reference price of the Henkel preferred share. A ceiling value (cap) is imposed in the event of extraordinary share price increases.

The base prices for the 2008 and 2009 tranches were 33.72 euros and 21.78 euros respectively. We based the measurement of the provision for the year of tranche issue on the achievement of mid-range targets; in the subsequent years, the pro rata provisions for the still live tranches issued in the previous years were adjusted on the basis of the latest figures. This has resulted in the addition of a further expense of 3.0 million euros in the financial year. At December 31, 2010, the provision for all still live tranches from this Program, which was discontinued as of 2009, was 3.4 million euros (previous year: 0.4 million euros).

(43) Employee structure

Annual average amounts excluding apprentices and trainees, work experience students and interns, based on quarterly figures:

Number of employees per function

	2009	2010
Production and engineering	24,665	23,672
Marketing, selling and distribution	16,123	15,106
Research and development	2,743	2,665
Administration	7,830	6,698
Total	**51,361**	**48,141**

(44) Group segment report by business sector and key financials by region

The format for reporting the activities of the Henkel Group by segment is by business sector; selected regional information is also provided. This classification corresponds to the way in which the Group manages its operating business.

The activities of the Henkel Group are divided into the following operating segments: Laundry & Home Care, Cosmetics/Toiletries and Adhesive Technologies (Adhesives for Consumers and Craftsmen, and Industrial Adhesives).

Laundry & Home Care

This business sector produces and sells detergents, laundry care products, dishwashing and cleaning products and insecticides.

Cosmetics/Toiletries

The portfolio of this business sector comprises hair cosmetics, body care, skin care, oral care and hair salon products.

Adhesive Technologies (Adhesives for Consumers and Craftsmen, and Industrial Adhesives)

This business sector produces and sells cyanoacrylates, office products for gluing and correcting applications, adhesive tapes, high-strength contact adhesives, adhesives for home decoration, building and do-it-yourself applications, adhesives and sealants for industrial applications and products for surface treatment.

In determining the segment results and the asset and liability values, essentially the same principles of recognition and measurement are applied as in the consolidated financial statements.

For reconciliation with the figures for the Henkel Group, Group overheads are reported under Corporate together with income and expenses that cannot be allocated to the individual business sectors.

In the year under review, the charges arising with respect to the item “Combination of the Adhesive Technologies businesses” have been disclosed under the Corporate segment as this is a centrally implemented, monitored and controlled program; however, in the Group segment report they have been split between the business sectors for information purposes.

Reconciliation between net operating assets/capital employed and balance sheet figures

in million euros

	Net operating assets: Annual average[1] 2010	Net operating assets: Dec. 31, 2010	Balance sheet figures Dec. 31, 2010	
Goodwill at book value	6,512	6,521	6,521	Goodwill at book value
Other intangible assets and property, plant and equipment (total)	4,500	4,335	4,335	Other intangible assets and property, plant and equipment (total)
			–	Financial assets
			358	Deferred tax assets
Inventories	1,451	1,460	1,460	Inventories
Trade accounts receivable from third parties	2,062	1,893	1,893	Trade accounts receivable from third parties
Intra-group accounts receivable	1,079	919	–	
Other assets and tax refund claims[2]	425	388	1,412	Other assets and tax refund claims
			1,515	Liquid funds/Marketable securities
			31	Assets held for sale
Operating assets (gross)	**16,029**	**15,516**	**17,525**	**Total assets**
– Operating liabilities	4,796	4,648		
of which: Trade accounts payable to third parties	2,262	2,308	2,308	Trade accounts payable to third parties
Intra-group accounts payable	1,079	919		
Other provisions and other liabilities[2] (financial and non-financial)	1,455	1,421	1,694	Other provisions and other liabilities (financial and non-financial)
Net operating assets	**11,233**	**10,868**		
– Goodwill at book value	6,512	–	–	
+ Goodwill at acquisition cost[3]	6,874	–	–	
Capital employed	**11,595**	–	–	

[1] The annual average is calculated on the basis of the twelve monthly figures.
[2] Only amounts relating to operating activities are taken into account in calculating net operating assets.
[3] Before deduction of accumulated amortization pursuant to IFRS 3.79 (b).

(45) Earnings per share

The Stock Incentive Plan (Note 42, AR pages 126 to 128) dilutes earnings per ordinary share and earnings per preferred share by 1 eurocent in each case.

Earnings per share

in million euros (rounded)	2009	2010
Net income attributable to shareholders of Henkel AG & Co. KGaA	**602**	**1,118**
Dividends, ordinary shares	132	182
Dividends, preferred shares	92	125
Total dividends	224	307
Retained earnings per ordinary share	227	486
Retained earnings per preferred share	151	325
Retained earnings	**378**	**811**
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.51	0.70 [4]
of which preferred dividend per ordinary share in euros [1]	*0.02*	*0.02*
Retained earnings per ordinary share in euros	0.87	1.87
EPS per ordinary share in euros	**1.38**	**2.57**
Number of outstanding preferred shares [2]	173,363,241	173,924,174
Dividend per preferred share in euros	0.53	0.72 [4]
of which preferred dividend per preferred share in euros [1]	*0.04*	*0.04*
Retained earnings per preferred share in euros	0.87	1.87
EPS per preferred share in euros	**1.40**	**2.59**
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.51	0.70 [4]
of which preferred dividend per ordinary share in euros [1]	*0.02*	*0.02*
Retained earnings per ordinary share in euros after dilution	0.87	1.86
Diluted EPS per ordinary share in euros	**1.38**	**2.56** [5]
Number of potential outstanding preferred shares [3]	173,392,463	174,300,359
Dividend per preferred share in euros	0.53	0.72 [4]
of which preferred dividend per preferred share in euros [1]	*0.04*	*0.04*
Retained earnings per preferred share in euros after dilution	0.87	1.86
Diluted EPS per preferred share in euros	**1.40**	**2.58** [5]

[1] See Group management report, Corporate governance, Division of capital stock, Shareholder rights pages 26 to 39.
[2] Weighted annual average of preferred shares (Henkel buy-back program).
[3] Weighted annual average of preferred shares adjusted for the potential number of shares arising from the Stock Incentive Plan.
[4] Proposed.
[5] Based on income attributable to shareholders of Henkel AG & Co. KGaA of 1,116 million euros (IAS 33.59).

(46) Cash flow statement

Cash flow from investing activities/acquisitions includes under the heading “Purchase of financial assets/acquisitions” funds used to make acquisitions of 46 million euros (previous year: –19 million euros). Of the amount spent on acquisitions, 42 million euros is attributable to the Cosmetics/Toiletries business sector and 4 million euros to the Adhesive Technologies business sector. In the previous year, there was an inflow of funds from investing activities in the amount of 19 million euros. Included in this figure was 103 million euros in payments received in settlement of financial receivables (cash pool settlement) arising from the acquisition of the National Starch businesses.

Included in the figure for cash and cash equivalents are liquid funds and marketable securities which are short-term in nature and exposed only to an insignificant risk of a change in price. As in the previous year, the cash and cash equivalents line corresponds to the liquid funds/marketable securities line in the balance sheet.

(47) Information on voting rights/Related party transactions

Information required by Section 160 (1) no. 8 of the German Stock Corporation Act [AktG]:

The company has been notified that the share of voting rights of the parties to the Henkel share-pooling agreement at October 21, 2010 represents in total 53.21 percent of the voting rights (138,240,804 votes) in Henkel AG & Co. KGaA and is held by

- 111 members of the families of the descendants of Fritz Henkel, the company's founder,
- four foundations set up by members of those families,
- one civil-law partnership set up by members of those families, and
- eight private limited companies set up by members of those families, seven limited partnerships with a limited company as a general partner (GmbH & Co. KG) and one limited partnership (KG)

under the terms of a share-pooling agreement (agreement restricting the transfer of shares) pursuant to Section 22 (2) of the German Securities Trading Act [WpHG], whereby the shares held by the eight private limited companies, the seven limited partnerships with a limited company as a general partner and the one limited partnership representing a total of 14.02 percent (36,419,097 voting rights) are attributed (pursuant to Section 22 (1) no. 1 WpHG) to the family members who control those companies.

Dr. Christoph Henkel, London, has exceeded the 5 percent threshold of voting rights in Henkel AG & Co. KGaA with 14,172,457 voting ordinary shares in Henkel AG & Co. KGaA, representing a rounded percentage of 5.46 percent. Even after adding voting rights expressly granted under the terms of usufruct agreements, no other party to the share-pooling agreement has a notification obligation triggered by their reaching or exceeding the threshold of 3 percent or more of the total voting rights in Henkel AG & Co. KGaA.

The authorized representative of the parties to the Henkel share-pooling agreement is Dr. Simone Bagel-Trah, Düsseldorf.

(48) Remuneration of the corporate management

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,516k euros plus VAT (previous year: 1,425k euros) and 2,209k euros (previous year: 2,345k euros) respectively. The total remuneration (Section 285 no. 9 German Commercial Code [HGB]) of the Management Board and members of the Management Board of Henkel Management AG amounted to 18,297k euros (previous year: 11,084k euros). For further details regarding the emoluments of the corporate management, please refer to the remuneration report on AR pages 31 to 39.

(49) Declaration of compliance with the Corporate Governance Code

In February 2010, the Management Board of Henkel Management AG and the Supervisory Board and Shareholders' Committee of Henkel AG & Co. KGaA approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code in accordance with Section 161 of the German Stock Corporation Act [AktG]. The declaration has been made permanently available to shareholders on the company website: www.henkel.com/ir

(50) Subsidiaries and other investments

Details relating to the investments held by Henkel AG & Co. KGaA and the Henkel Group are provided in a separate schedule appended to these notes to the consolidated financial statements but not included in the printed form of the Annual Report. Said schedule is included in the accounting record submitted for publication in the Electronic Federal Gazette and can be viewed there and at the Annual General Meeting. The schedule is also included in the online version of the Annual Report on our website: www.henkel.com/ir

(51) Auditor's fees and services

The total fees charged to the Group for the services of the auditor KPMG in fiscal 2009 and 2010 were as follows:

Type of fee

in million euros	2009	2010
Audit (including outlays)	9.8	**9.6**
Other audit-related services	0.4	**0.1**
Tax advisory services	2.1	**0.9**
Other services	0.3	**0.6**
Total	12.6	11.2

Audit fees comprise the total fees (including outlays) paid or payable to the KPMG organization in respect of the audit of the Group accounts and reporting thereon, the audit of the individual company financial statements of Henkel AG & Co. KGaA and its affiliated companies as required by law, and the review of the half-year financial report.

Tax advisory services include fees for advice and support on tax issues emanating from the acquisition of the National Starch businesses and also the performance of tax compliance services for affiliated companies outside Germany.

Other services comprise fees for agreed-upon procedures and support for process improvement activities.

Recommendation for the approval of the annual financial statements and the appropriation of the profit of Henkel AG & Co. KGaA

It is proposed that the annual financial statements of Henkel AG & Co. KGaA be approved as presented and that the unappropriated profit of 861,527,712.35 euros for the year ended December 31, 2010 be applied as follows:

a) Payment of a dividend of 0.70 euros per ordinary share (259,795,875 shares) = 181,857,112.50 euros
b) Payment of a dividend of 0.72 euros per preferred share (178,162,875 shares) = 128,277,270.00 euros
c) Allocation to other retained earnings = 250,000,000.00 euros
d) Carry-forward of the remaining amount of 301,393,329.85 euros to the following year (retained earnings)

861,527,712.35 euros

According to Section 71 German Stock Corporation Act [AktG], treasury shares do not qualify for a dividend. The amount in unappropriated profit which relates to the shares held by the corporation (treasury stock) at the date of the Annual General Meeting will be carried forward as retained earnings. As the Annual General Meeting can change the number of such treasury shares, an appropriately adapted proposal for the appropriation of profit will be submitted to it, providing for an unchanged payout of 0.70 euros per ordinary share qualifying for a dividend and 0.72 euros per preferred share qualifying for dividend, with corresponding adjustment of the other retained earnings and retained earnings carried forward to the following year.

Düsseldorf, January 28, 2011

Henkel Management AG
(Personally Liable Partner
of Henkel AG & Co. KGaA)

Management Board

Annual financial statements of Henkel AG & Co. KGaA (summarized)*)

Statement of income

in million euros	2009	2010
Sales	2,971	3,272
Cost of sales	–2,035	–2,262
Gross profit	936	1,010
Selling, research and administrative expenses	–1,267	–1,283
Other income (net of other expenses)	403	458
Operating profit	72	185
Financial result	253	874
Profit on ordinary activities	325	1,059
Change in special accounts with reserve element	18	14
Extraordinary result	–	37
Earnings before tax	343	1,110
Taxes on income	–60	–141
Net income	283	969
Profit brought forward	325	377
Allocated to other retained earnings	–	–484
Allocated to reserve for own shares	–6	–
Unappropriated profit[1]	602	862

[1] Statement of income figures are rounded; unappropriated profit: 601,597,840.27 euros for 2009 and 861,527,712.35 euros for 2010.

Balance sheet

in million euros	2009	2010
Intangible assets and property, plant and equipment	729	671
Financial assets	8,376	7,017
Non-current assets	9,105	7,688
Inventories	186	224
Receivables and miscellaneous assets / Deferred charges	2,599	1,994
Marketable securities	109	250
Liquid funds	727	1,117
Current assets	3,621	3,585
Assets arising from the overfunding of pension obligations	–	115
Total assets	12,726	11,388
Equity	4,809	5,468
Special accounts with reserve element	165	151
Provisions	2,524	654
Liabilities, deferred income and accrued expenses	5,228	5,115
Total equity and liabilities	12,726	11,388

*) The full financial statements of Henkel AG & Co. KGaA with the auditor's unqualified opinion are filed with the commercial register; copies can be obtained from Henkel AG & Co. KGaA on request; the financial statements are based on the German Commercial Code [HGB].

Independent Auditor’s Report

We have issued the following unqualified auditor’s report:
“Independent Auditor’s Report
To Henkel AG & Co. KGaA, Düsseldorf

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Henkel AG & Co. KGaA, Düsseldorf, and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010, and the consolidated statement of income, the statement of comprehensive income, the statement of changes in equity, the consolidated cash flow statement for the financial year then ended, and the notes to the consolidated financial statements.

Responsibility of the Personally Liable Partner of the Company for the Consolidated Financial Statements

The personally liable partner of Henkel AG & Co. KGaA is responsible for the preparation of these consolidated financial statements. This responsibility includes preparing these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code, to give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The personally liable partner of the company is also responsible for the internal controls that it determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Section 317 German Commercial Code and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) as well as in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we comply with professional requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The selection of audit procedures depends on the auditor’s professional judgment. This includes the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In assessing those risks, the auditor considers the system of internal control relevant to the entity’s preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code. The aim of this is to plan and perform audit procedures that are appropriate in the given circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s system of internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the personally liable partner of the company, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit Opinion

Pursuant to Section 322 (3) 1 German Commercial Code, we state that our audit of the consolidated financial statements has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply in all material respects with International Financial Reporting Standards as adopted by the European Union and the supplementary requirements of German law pursuant to Section 315a (1) German Commercial Code and give a true and fair view of the net assets and financial position of the Henkel Group as at December 31, 2010, as well as the results of operations for the financial year then ended, in accordance with these requirements.

Report on the Group management report

We have audited the accompanying Group management report of Henkel AG & Co. KGaA. The personally liable partner of Henkel AG & Co. KGaA is responsible for the preparation of the Group management report in compliance with the applicable requirements of German law pursuant to Section 315a (1) German Commercial Code. We conducted our audit in accordance with Section 317 (2) German Commercial Code and German generally accepted standards for the audit of the Group management reports promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit of the Group management report to obtain reasonable assurance about whether the Group management report is consistent with the consolidated financial statements and with the findings of our audit, and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) 1 German Commercial Code, we state that our audit of the Group management report has not led to any reservations.

In our opinion, based on the findings of our audit of the consolidated financial statements and of the Group management report, the Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group’s position and suitably presents the opportunities and risks of future development.

Düsseldorf, January 28, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thomas Sauter	Michael Gewehr
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)”

Responsibility statement by the Personally Liable Partner

To the best of our knowledge, and in accordance with the applicable accounting principles for financial reporting, the consolidated financial statements give a true and fair view of the net assets, financial position and results of operations of the Group, and the management report of the Group includes a fair review of the development, performance and results of the business and the position of the Group, together with a cogent description of the principal opportunities and risks associated with the expected development of the Group.

Düsseldorf, January 28, 2011

Henkel Management AG
Management Board
Kasper Rorsted,
Jan-Dirk Auris, Bruno Piacenza, Dr. Friedrich Stara,
Dr. Lothar Steinebach, Hans Van Bylen

Corporate management of Henkel AG & Co. KGaA

Boards/Memberships as defined by Section 125 (1) sentence 5 of the German Stock Corporation Act [AktG] as at January 2011

Dipl.-Ing. Albrecht Woeste Honorary Chairman of the Henkel Group

Supervisory Board of Henkel AG & Co. KGaA

Members of the Supervisory Board of Henkel AG & Co. KGaA	Membership in statutory supervisory and administrative boards in Germany	Membership of comparable supervisory boards
Dr. Simone Bagel-Trah Chairwoman, Private Investor, Düsseldorf Born: 1969 Member since April 14, 2008	Henkel Management AG (Chairwoman)	Henkel AG & Co. KGaA (Shareholders' Committee, Chairwoman)
Winfried Zander[1)] Vice-chairman, Chairman of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born: 1954 Member since May 17, 1993		
Jutta Bernicke[1)] Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born: 1962 Member since April 14, 2008		
Dr. rer. nat. Kaspar von Braun (since April 19, 2010) Astrophysicist, Pasadena Born: 1971 Member since April 19, 2010		
Johann-Christoph Frey Commercial Executive, Klosters Born: 1955 Member since September 23, 2009		
Birgit Helten-Kindlein[1)] Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born: 1964 Member since April 14, 2008		
Bernd Hinz[1)] (until July 31, 2010) Member of the General Works Council of Henkel AG & Co. KGaA and Vice-chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born: 1951 Member since May 4, 1998		
Prof. Dr. sc. nat. Michael Kaschke Chairman of the Executive Board of Carl Zeiss AG, Oberkochen Born: 1957 Member since April 14, 2008	Carl Zeiss Group mandates: Carl Zeiss MicroImaging GmbH (Chairman), Carl Zeiss SMT GmbH (Chairman)	Carl Zeiss Group mandates: Carl Zeiss Japan Co. Ltd. (Chairman), Carl Zeiss Far East (Chairman), Carl Zeiss India Pte. Ltd. (Chairman)
Thomas Manchot Private Investor, Düsseldorf Born: 1965 Member since April 10, 2006		
Mayc Nienhaus[1)] (since January 1, 2010) Member of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Unna site Born: 1961 Member since January 1, 2010		

[1)] Employee representative.

Supervisory Board of Henkel AG & Co. KGaA

Members of the Supervisory Board of Henkel AG & Co. KGaA	Membership in statutory supervisory and administrative boards in Germany	Membership of comparable supervisory boards
Thierry Paternot Operating Partner, Duke Street Capital, Paris Born: 1948 Member since April 14, 2008	Eckes AG	Bio DS SAS, France, Freedom-FullSix SAS (Chairman), France, Oeneo SA, France
Andrea Pichottka[1] Executive Assistant to the Executive Board Member Section 3, Members/Target Groups/Education IG Bergbau, Chemie, Energie, Hannover Born: 1959 Member since October 26, 2004	Siltronic AG	
Prof. Dr. Theo Siegert Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf Born: 1947 Member since April 20, 2009	Deutsche Bank AG, E.ON AG, Merck KGaA	DKSH Holding Ltd., Switzerland, E. Merck OHG
Edgar Topsch[1] (since August 1, 2010) Member of the General Works Council of Henkel AG & Co. KGaA and Vice-chairman of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born: 1960 Member since August 1, 2010		
Konstantin von Unger (until April 19, 2010) Founding Partner Blue Corporate Finance, London Born: 1966 Member since April 10, 2006		Henkel AG & Co. KGaA (Shareholders' Committee), Ten Lifestyle Management Ltd., Great Britain
Michael Vassiliadis[1] Chairman of the Executive Committee of IG Bergbau, Chemie, Energie, Hannover Born: 1964 Member since May 4, 1998	BASF SE, K + S AG (Vice-chairman), Evonik Steag GmbH (Vice-chairman)	
Dr. h.c. Bernhard Walter Former Chairman of the Executive Board of Dresdner Bank AG, Frankfurt am Main Born: 1942 Member since May 4, 1998	Bilfinger Berger AG (Chairman), Daimler AG, Deutsche Telekom AG	
Ulf Wentzien[1] Commercial Executive, Düsseldorf Representative of the Senior Staff of Henkel AG & Co. KGaA Born: 1963 Member since April 14, 2008		

[1] Employee representative.

Committees of the Supervisory Board

	Functions	Members
Nominations Committee	The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members of the Supervisory Board (shareholder representatives).	Dr. Simone Bagel-Trah, Chairwoman Dr. h.c. Bernhard Walter Johann-Christoph Frey (since April 19, 2010) Konstantin von Unger (until April 19, 2010)
Audit Committee	The Audit Committee prepares resolutions of the Supervisory Board on the approval of the annual financial statements and the consolidated financial statements, and for ratification of the proposal to be put before the Annual General Meeting regarding appointment of the auditor and also deals with accountancy, risk management and compliance issues.	Dr. h.c. Bernhard Walter, Chairman Prof. Dr. Theo Siegert, Vice-chairman Dr. Simone Bagel-Trah Birgit Helten-Kindlein Michael Vassiliadis Winfried Zander

Shareholders' Committee of Henkel AG & Co. KGaA

Members of the Shareholders' Committee of Henkel AG & Co. KGaA	Membership in statutory supervisory and administrative boards in Germany	Membership of comparable supervisory boards
Dr. Simone Bagel-Trah Chairwoman, Private Investor, Düsseldorf Born: 1969 Member since April 18, 2005	Henkel AG & Co. KGaA (Chairwoman), Henkel Management AG (Chairwoman)	
Dr. h.c. Christoph Henkel Vice-chairman, Managing Partner Canyon Equity LLC, London Born: 1958 Member since May 27, 1991		
Dr. Paul Achleitner Member of the Executive Board of Allianz SE, Munich Born: 1956 Member since April 30, 2001	Bayer AG, RWE AG, Daimler AG, Allianz Group mandates: Allianz Global Investors AG, Allianz Investment Management SE (Chairman)	
Boris Canessa Private Investor, Düsseldorf Born: 1963 Member since September 19, 2009	Wilhelm von Finck AG	
Stefan Hamelmann Private Investor, Düsseldorf Born: 1963 Member since May 3, 1999	Henkel Management AG (Vice-chairman)	
Dr. h.c. Ulrich Hartmann (until April 19, 2010) Chairman of the Supervisory Board of E.ON AG, Düsseldorf Born: 1938 Member since May 4, 1998	Deutsche Lufthansa AG, E.ON AG (Chairman)	
Prof. Dr. Ulrich Lehner Former Chairman of the Management Board of Henkel KGaA, Düsseldorf Born: 1946 Member since April 14, 2008	Deutsche Telekom AG (Chairman), E.ON AG, Henkel Management AG, HSBC Trinkaus & Burkhardt AG, Porsche Automobil Holding SE, ThyssenKrupp AG	Dr. August Oetker KG, Novartis AG, Switzerland
Konstantin von Unger Founding Partner, Blue Corporate Finance, London Born: 1966 Member since April 14, 2003	Henkel AG & Co. KGaA	Ten Lifestyle Management Ltd., Great Britain
Karel Vuursteen Former Chairman of the Executive Board of Heineken N.V., Amsterdam Born: 1941 Member since May 6, 2002		Akzo Nobel N.V. (Chairman), Netherlands, Heineken Holding N.V., Netherlands, Tom Tom N.V. (Chairman), Netherlands
Werner Wenning Former Chairman of the Executive Board of Bayer AG, Leverkusen Born: 1946 Member since April 14, 2008	Deutsche Bank AG, E.ON AG, HDI V.a.G, Talanx AG	

Subcommittees of the Shareholders' Committee

	Functions	Members
Finance Subcommittee	The Finance Subcommittee deals principally with financial matters, accounting issues including the statutory year-end audit, taxation and accounting policy, internal auditing and risk management within the company.	Dr. h.c. Christoph Henkel, Chairman Stefan Hamelmann, Vice-chairman Dr. Paul Achleitner Dr. h.c. Ulrich Hartmann (until April 19, 2010) Prof. Dr. Ulrich Lehner
Human Resources Subcommittee	The Human Resources Subcommittee deals principally with personnel matters concerning members of the Management Board, issues relating to the human resources strategy, and remuneration.	Dr. Simone Bagel-Trah, Chairwoman Konstantin von Unger, Vice-chairman Boris Canessa Karel Vuursteen Werner Wenning

Personally Liable Partner of Henkel AG & Co. KGaA

Henkel Management AG
Düsseldorf,
Commercial Register HRB 58139, Düsseldorf District Court

Management Board of Henkel Management AG

Members of the Management Board of Henkel Management AG	Membership in statutory supervisory and administrative boards in Germany	Membership of comparable supervisory boards
Kasper Rorsted Chairman, Human Resources/Infrastructure Services/Corporate Communications Born: 1962 Member since April 1, 2005[1]		Danfoss A/S, Denmark
Jan-Dirk Auris (since January 1, 2011) Adhesive Technologies Born: 1968 Member since January 1, 2011		
Thomas Geitner (until December 31, 2010) Adhesive Technologies Born: 1955 Member since March 1, 2008[1]	BBC Worldwide Ltd., Great Britain	Henkel Corp. (Chairman), USA
Bruno Piacenza (since January 1, 2011) Laundry & Home Care (as of March 1, 2011) Born: 1965 Member since January 1, 2011		
Dr. Friedrich Stara (until February 28, 2011) Laundry & Home Care Born: 1949 Member since July 1, 2005[1]		The Dial Corp. (Chairman), USA, Wiener Städtische Allgemeine Versicherung AG, Austria
Dr. Lothar Steinebach Finance/Purchasing/IT/Legal Born: 1948 Member since July 1, 2003[1]	LSG Lufthansa Service Holding AG	Henkel Adhesives Middle East E.C., Bahrain, Henkel (China) Investment Co. Ltd., China, Henkel & Cie AG, Switzerland, Henkel Central Eastern Europe GmbH (Chairman), Austria, Henkel Consumer Goods Inc. (Chairman), USA, Henkel Ltd., Great Britain, Henkel of America Inc. (Chairman), USA, Henkel Technologies Egypt SAE, Egypt, Türk Henkel Kimya Sanayi ve Ticaret AS (Chairman), Turkey
Hans Van Bylen Cosmetics/Toiletries Born: 1961 Member since July 1, 2005[1]		Henkel Belgium N.V., Belgium, Henkel Nederland BV, Netherlands

[1] Including membership of the Management Board of Henkel KGaA.

Supervisory Board of Henkel Management AG

Members of the Supervisory Board of Henkel Management AG	Membership in statutory supervisory and administrative boards in Germany	Membership of comparable supervisory boards
Dr. Simone Bagel-Trah Chairwoman, Private Investor, Düsseldorf Born: 1969 Member since February 15, 2008	Henkel AG & Co. KGaA (Chairwoman)	Henkel AG & Co. KGaA (Shareholders' Committee, Chairwoman)
Stefan Hamelmann Vice-chairman, Private Investor, Düsseldorf Born: 1963 Member since September 19, 2009		Henkel AG & Co. KGaA (Shareholders' Committee)
Prof. Dr. Ulrich Lehner Former Chairman of the Management Board of Henkel KGaA, Düsseldorf Born: 1946 Member since February 15, 2008	Deutsche Telekom AG (Chairman), E.ON AG, HSBC Trinkaus & Burkhardt AG, Porsche Automobil Holding SE, ThyssenKrupp AG	Henkel AG & Co. KGaA (Shareholders' Committee), Dr. August Oetker KG, Novartis AG, Switzerland

Further information

Corporate Senior Vice Presidents

Prof. Dr. Ramón Bacardit
Adhesive Technologies
Research

Georg Baratta-Dragono
Laundry & Home Care
Germany and Latin America

Alain Bauwens
Laundry & Home Care
Global Marketing,
Business Development and
Region Asia-Pacific

Wolfgang Beynio
Finance/Controlling

Dr. Andreas Bruns
Infrastructure Services

Julian Colquitt
Adhesive Technologies
North America

Bertrand Conquéret
Global Purchasing

Jean Fayolle
Adhesive Technologies
SBU Packaging, Consumer Goods and
Construction Adhesives

Enric Holzbacher
Adhesive Technologies
Region Western Europe/
Central Eastern Europe/
Middle East/Africa and
SBU Consumer & Craftsmen Adhesives/
Building Adhesives

Dr. Stefan Huchler
Cosmetics/Toiletries
Supply Chain/Packaging
(since April 1, 2010)

Dr. Joachim Jäckle
Financial Operations

Patrick Kaminski
Cosmetics/Toiletries
Asia-Pacific/Africa/Middle East/
Eastern Europe/CIS & Export
(since November 1, 2010)

Paul Kirsch
Adhesive Technologies
SBU Global Transportation
(since April 1, 2010)

Carsten Knobel
Cosmetics/Toiletries –
Financial Director and
Finance – Corporate Controlling

Dirk-Stephan Koedijk
Chief Compliance Officer

Norbert Koll
Cosmetics/Toiletries
Schwarzkopf Professional

Thomas Gerd Kühn
Legal, IP, Insurance

Dr. Marcus Kuhnert
Laundry & Home Care –
Financial Director

Andreas Lange
Laundry & Home Care
Region Western Europe

Kathrin Menges
Human Resources

Tina Müller
Cosmetics/Toiletries
Chief Marketing Officer Retail

Prof. Dr. Thomas Müller-Kirschbaum
Laundry & Home Care
R&D/Technology/Supply Chain

Dr. Matthias Schmidt
Adhesive Technologies –
Financial Director

Stefan Sudhoff
Laundry & Home Care &
Cosmetics/Toiletries North America
Cosmetics/Toiletries Latin America

Alan Syzdek
Adhesive Technologies
SBU Global Electronic Materials

Günter Thumser
Henkel Central Eastern Europe

Carsten Tilger
Corporate Communications

Dr. Peter Wroblowski
Information Technology

SBU = Strategic Business Unit

At January 2011

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Aleksej Ananishnov
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Faruk Arig
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Cedric Berthod
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Dr. Joachim Bolz
Oriol Bonaclocha
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Oliver Bossmann
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Ulf Wentzien
Dr. Jürgen Wichelhaus
Dr. Hans-Christof Wilk
Dorian Williams

At January 2011

Quarterly breakdown of key financials

in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
Sales										
Laundry & Home Care	1,013	**1,049**	1,058	**1,086**	1,035	**1,123**	1,023	**1,061**	4,129	**4,319**
Cosmetics/Toiletries	720	**762**	790	**865**	764	**845**	736	**797**	3,010	**3,269**
Adhesive Technologies	1,469	**1,651**	1,582	**1,890**	1,630	**1,945**	1,543	**1,820**	6,224	**7,306**
Corporate	56	**50**	55	**49**	56	**49**	43	**51**	210	**199**
Henkel Group	**3,258**	**3,512**	**3,485**	**3,890**	**3,485**	**3,961**	**3,345**	**3,729**	**13,573**	**15,092**
Cost of sales	–1,814	**–1,829**	–1,906	**–2,074**	–1,882	**–2,106**	–1,809	**–2,069**	–7,411	**–8,078**
Gross profit	**1,444**	**1,683**	**1,579**	**1,816**	**1,603**	**1,855**	**1,536**	**1,660**	**6,162**	**7,014**
Marketing, selling and distribution expenses	–948	**–1,011**	–1,007	**–1,108**	–1,002	**–1,090**	–969	**–1,048**	–3,926	**–4,257**
Research and development expenses	–99	**–95**	–103	**–103**	–99	**–95**	–95	**–98**	–396	**–391**
Administrative expenses	–183	**–185**	–191	**–202**	–196	**–185**	–165	**–178**	–735	**–750**
Other operating charges and income	4	**30**	1	**18**	–16	**16**	–14	**43**	–25	**107**
EBIT										
Laundry & Home Care	107	**151**	119	**137**	137	**139**	138	**115**	501	**542**
Cosmetics/Toiletries	91	**100**	100	**112**	99	**113**	97	**86**	387	**411**
Adhesive Technologies	47	**185**	95	**222**	89	**268**	59	**202**	290	**878**
Corporate	–27	**–15**	–35	**–50**	–35	**–19**	–1	**–24**	–98	**–108**
Henkel Group	**218**	**422**	**279**	**421**	**290**	**501**	**293**	**379**	**1,080**	**1,723**
Investment result	–	**–**	–4	**–**	–	**–**	–	**1**	–4	**1**
Net interest	–52	**–54**	–56	**–35**	–40	**–37**	–43	**–46**	–191	**–172**
Financial result	**–52**	**–54**	**–60**	**–35**	**–40**	**–37**	**–43**	**–45**	**–195**	**–171**
Earnings before tax	**166**	**368**	**219**	**386**	**250**	**464**	**250**	**334**	**885**	**1,552**
Taxes on income	**–45**	**–102**	**–69**	**–106**	**–70**	**–121**	**–73**	**–80**	**–257**	**–409**
Net income	**121**	**266**	**150**	**280**	**180**	**343**	**177**	**254**	**628**	**1,143**
– Attributable to non-controlling interests	–4	**–7**	–7	**–7**	–8	**–6**	–7	**–5**	–26	**–25**
– Attributable to shareholders of Henkel AG & Co. KGaA	**117**	**259**	**143**	**273**	**172**	**337**	**170**	**249**	**602**	**1,118**
Earnings per preferred share in euros	**0.28**	**0.60**	**0.33**	**0.63**	**0.39**	**0.78**	**0.39**	**0.58**	**1.40**	**2.59**

in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
EBIT (as reported)	**218**	**422**	**279**	**421**	**290**	**501**	**293**	**379**	**1,080**	**1,723**
One-time gains	–3	**–32**	–	**–1**	–	**–10**	–6	**–16**	–9	**–59**
One-time charges	4	**–**	4	**9**	46	**–**	80	**5**	134	**14**
Restructuring charges	16	**31**	25	**47**	71	**26**	47	**80**	159	**184**
Adjusted EBIT	**235**	**421**	**308**	**476**	**407**	**517**	**414**	**448**	**1,364**	**1,862**
Adjusted earnings per preferred share in euros	**0.31**	**0.60**	**0.37**	**0.73**	**0.59**	**0.80**	**0.64**	**0.69**	**1.91**	**2.82**

The quarterly figures are specific to the quarter to which they refer and have been rounded for commercial convenience.

Multi-year summary

in million euros		2004[5]	2005	2006	2007	2008[6]	2009	2010
Sales		10,592	11,974	12,740	13,074	14,131	13,573	**15,092**
Operating profit (EBIT)		996	1,162	1,298	1,344	779	1,080	**1,723**
Earnings before tax		1,007	1,042	1,176	1,250	1,627	885	**1,552**
Net income		748	770	871	941	1,233	628	**1,143**
Net income attributable to shareholders of Henkel AG & Co. KGaA		747	757	855	921	1,221	602	**1,118**
Earnings per preferred share (EPS)[1]	in euros	1.75	1.77	1.99	2.14	2.83	1.40	**2.59**
Total assets		13,287	13,944	13,346	13,048	16,173	15,818	**17,525**
Non-current assets		7,989	9,065	8,664	7,931	11,360	11,162	**11,575**
Current assets		5,248	4,879	4,682	5,117	4,813	4,656	**5,950**
Liabilities		8,941	8,545	7,799	7,342	9,539	9,274	**9,575**
Operating debt coverage ratio[2]	in %	31.6	39.9	48.4	71.6	45.1	41.8	**71.4**
Interest coverage ratio[2]		8.4	7.1	9.4	9.4	4.8	8.7	**12.8**
Equity		4,346	5,399	5,547	5,706	6,535	6,544	**7,950**
Equity ratio	in %	32.7	38.7	41.6	43.7	40.3	41.4	**45.4**
Net return on sales[3]	in %	7.1	6.4	6.8	7.2	8.7	4.7	**7.6**
Return on equity[4]	in %	17.2	17.7	16.1	17.0	21.6	9.6	**17.5**
Dividend per ordinary share	in euros	0.41	0.43	0.48	0.51	0.51	0.51	**0.70**[7]
Dividend per preferred share	in euros	0.43	0.45	0.50	0.53	0.53	0.53	**0.72**[7]
Total dividends		185	193	214	227	227	227	**310**[7]
Capital expenditures (including financial assets)		4,678	1,119	897	548	4,074	415	**260**
Investment ratio	as % of sales	43.7	9.3	7.0	4.2	28.8	3.0	**1.7**
Research and development costs		272	324	340	350	429	396	**391**
Number of employees (annual average)		49,947	51,724	51,716	52,303	55,513	51,361	**48,141**
of which in Germany		10,488	10,264	9,995	9,899	9,892	9,397	**8,897**
of which abroad		39,459	41,460	41,721	42,404	45,621	41,964	**39,244**

[1] Basis: share split (1:3) of June 18, 2007.
[2] See page 55 for formula.
[3] Net income divided by sales.
[4] Net income divided by equity at the start of the year.
[5] Restated and comparable.
[6] Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses.
[7] Proposed.

Credits

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Financial calendar

**Annual General Meeting
Henkel AG & Co. KGaA 2011:
Monday, April 11, 2011**

**Publication of Report
for the First Quarter 2011:
Wednesday, May 4, 2011**

**Publication of Report
for the Second Quarter / Half Year 2011:
Wednesday, August 10, 2011**

**Publication of Report
for the Third Quarter / Nine Months 2011:
Wednesday, November 9, 2011**

**Publication of Report
for Fiscal 2011:
Thursday, March 8, 2012**

**Annual General Meeting
Henkel AG & Co. KGaA 2012:
Monday, April 16, 2012**

Up-to-date facts and figures on Henkel also available on the internet:

www.henkel.com

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The cover photo shows members of the management team responsible for Cosmetics / Toiletries Asia-Pacific attending their Vision and Values Workshop in Shanghai, China. From left to right: Vijay Manickavasagam, Antje Chu, Rungaroon Koohasaneh and Paul Khol.

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