



A global team – winning together

Annual Report 2009

Henkel at a glance

- » Global supplier of brands and technologies
- » 133 years of brand success
- » Competence in three business sectors:
 - » Laundry & Home Care
 - » Cosmetics/Toiletries
 - » Adhesive Technologies

Highlights of 2009

- » Organic sales performance: -3.5 percent
 - » Laundry & Home Care: +2.9 percent
 - » Cosmetics/Toiletries: +3.5 percent
 - » Adhesive Technologies: -10.2 percent
- » Share of sales accounted for by our growth regions: increase of 1 percentage point to 38 percent
- » Adjusted return on sales (EBIT): 10.0 percent
- » Net working capital: improvement of 3.9 percentage points to 7.8 percent of sales
- » Net debt: reduced by 1.0 billion euros to 2.8 billion euros

Key financials

in million euros	2008	2009	+/-	
Sales	14,131	13,573	-3.9 %	
Operating profit (EBIT)	779	1,080	38.6 %	
Adjusted ¹⁾ operating profit (EBIT)	1,460	1,364	-6.6 %	
Return on sales (EBIT)	in %	5.5	8.0	2.5 pp
Adjusted ¹⁾ return on sales (EBIT)	in %	10.3	10.0	-0.3 pp
Net earnings	1,233	628	-49.1 %	
Earnings after minority interests	1,221	602	-50.7 %	
Earnings per preferred share	in euros	2.83	1.40	-50.5 %
Adjusted ¹⁾ earnings per preferred share	in euros	2.19	1.91	-12.8 %
Return on capital employed (ROCE)	in %	6.9	9.8	2.9 pp
Capital expenditures on property, plant and equipment	473	344	-27.3 %	
Research and development expenses ²⁾	429	396	-7.7 %	
Number of employees (annual average)	55,513	51,361	-7.5 %	
Dividend per ordinary share	in euros	0.51	0.51 ³⁾	0.0 %
Dividend per preferred share	in euros	0.53	0.53 ³⁾	0.0 %

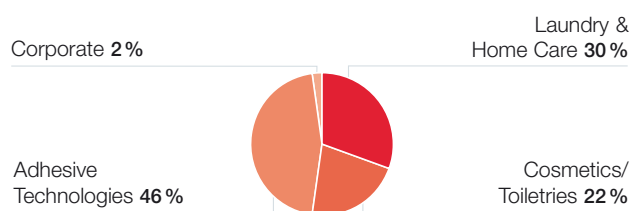
¹⁾ Adjusted for one-time charges/gains and restructuring charges

²⁾ Includes restructuring charges of 52 million euros (2008) and 13 million euros (2009)

³⁾ Proposed

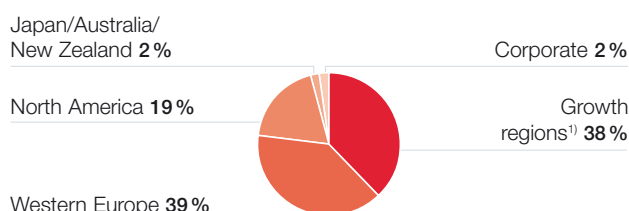
pp = percentage points

Sales by business sector



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

Sales by region



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 a heightened focus on our customer relationships

Further expanding our strong market position in Europe and our presence in the growth regions and North America

Key financials

in million euros	2008	2009	+/-
Sales	4,172	4,129	-1.0 %
Operating profit (EBIT)	439	501	14.0 %
Adjusted ¹⁾ operating profit (EBIT)	450	530	17.8 %
Return on sales (EBIT)	10.5 %	12.1 %	1.6 pp
Adjusted ¹⁾ return on sales (EBIT)	10.8 %	12.8 %	2.0 pp

pp = percentage points
¹⁾ Adjusted for one-time charges/gains and restructuring charges

Major brands

Persil

Purex

Pril

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

Cosmetics/Toiletries

Leading market positions worldwide

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

Expanding our strong market positions in Europe and North America and selectively increasing our presence in the growth regions

Key financials

in million euros	2008	2009	+/-
Sales	3,016	3,010	-0.2 %
Operating profit (EBIT)	376	387	3.1 %
Adjusted ¹⁾ operating profit (EBIT)	379	387	2.1 %
Return on sales (EBIT)	12.5 %	12.9 %	0.4 pp
Adjusted ¹⁾ return on sales (EBIT)	12.6 %	12.9 %	0.3 pp

pp = percentage points
¹⁾ Adjusted for one-time charges/gains and restructuring charges

Major brands


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; dental care and oral hygiene products; hair salon products

Adhesive Technologies

Leading our markets worldwide

Achieving profitable growth through innovations under our 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	2008	2009	+/-
Sales	6,700	6,224	-7.1 %
Operating profit (EBIT)	658	290	-55.9 %
Adjusted ¹⁾ operating profit (EBIT)	680	506	-25.6 %
Return on sales (EBIT)	9.8 %	4.7 %	-5.1 pp
Adjusted ¹⁾ return on sales (EBIT)	10.1 %	8.1 %	-2.0 pp

pp = percentage points
¹⁾ Adjusted for one-time charges/gains and restructuring charges

Major brands

LOCTITE

Teroson

Ceresit

Adhesive and sealant systems; 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 craftsmen and consumers and for applications in the home, school and office

Major innovations Laundry & Home Care



Persil ActicPower is particularly economical, offering a high yield plus its full laundry power from just 15 degrees Celsius. Available in a small, handy bottle. And **Persil Hygiene Rinse** ensures enhanced laundry hygiene, particularly at low wash temperatures. www.persil.de



Somat 9 – nine functions for an even better dishwashing result with the addition of two new components: an odor neutralizer to combat unpleasant smells and an Extra-Dry function to ensure that water runs evenly and effectively from the washed items. Launched in Western Europe and in Central and Eastern Europe, **Somat Perfect Gel** is the first multi-functional gel to hit those machine dishwashing product markets. www.somat.de



Marketed in the USA, innovative **Purex Complete 3-in-1** laundry sheets combine the performance of a detergent with a fabric softener while also preventing the build-up of wash static in the drier. Plus: CO₂ emissions attributable to transportation are reduced by almost 70 percent and packaging materials by some 45 percent.

www.purex.com

Major innovations Cosmetics/Toiletries



Schwarzkopf Essential Color – our first 100 percent permanent hair colorant without ammonia and with nature-based ingredients such as lychee and white tea for a deeply lustrous color offering long-lasting gray coverage. www.essentialcolor.com



Syoss – professional hair care at an affordable price. Developed and tested in cooperation with stylists, the formulations offer salon-standard hair beauty on a daily basis and are available in retail stores. The Syoss launch was Europe's most successful in the hair care sector in 2009.

www.syoss.de



Dial Anti-Ox body wash with cranberries and anti-oxidant pearls – the most successful body wash launch in the USA. Gently cleans and protects the skin from harmful environmental influences. www.dialsoap.com

Major innovations Adhesive Technologies



Loctite 5188 flange sealant is particularly suitable for use in engines, gear units and pumps. It remains super-flexible yet adheres very well to metallic substrates even after long exposure to high temperatures and chemical attack. www.loctite.com



Technomelt Supra Cool 130 – a newly developed hotmelt adhesive for packaging that works at a significantly lower application temperature to reduce energy consumption. It also offers extremely high adhesive strength, outstanding flowability and a substantially wider range of application suitability. www.technomelt.com



Major advancement in semiconductor attachment technology – with **Ablestik Self-Filleting** it is now possible to mount miniature electronic components more quickly and reliably than ever before. All that is needed is a small drop of this adhesive and the capillary force automatically ensures that the substance is distributed right to the edge of the component joint – where it automatically stops.

www.henkel.com/ablestik

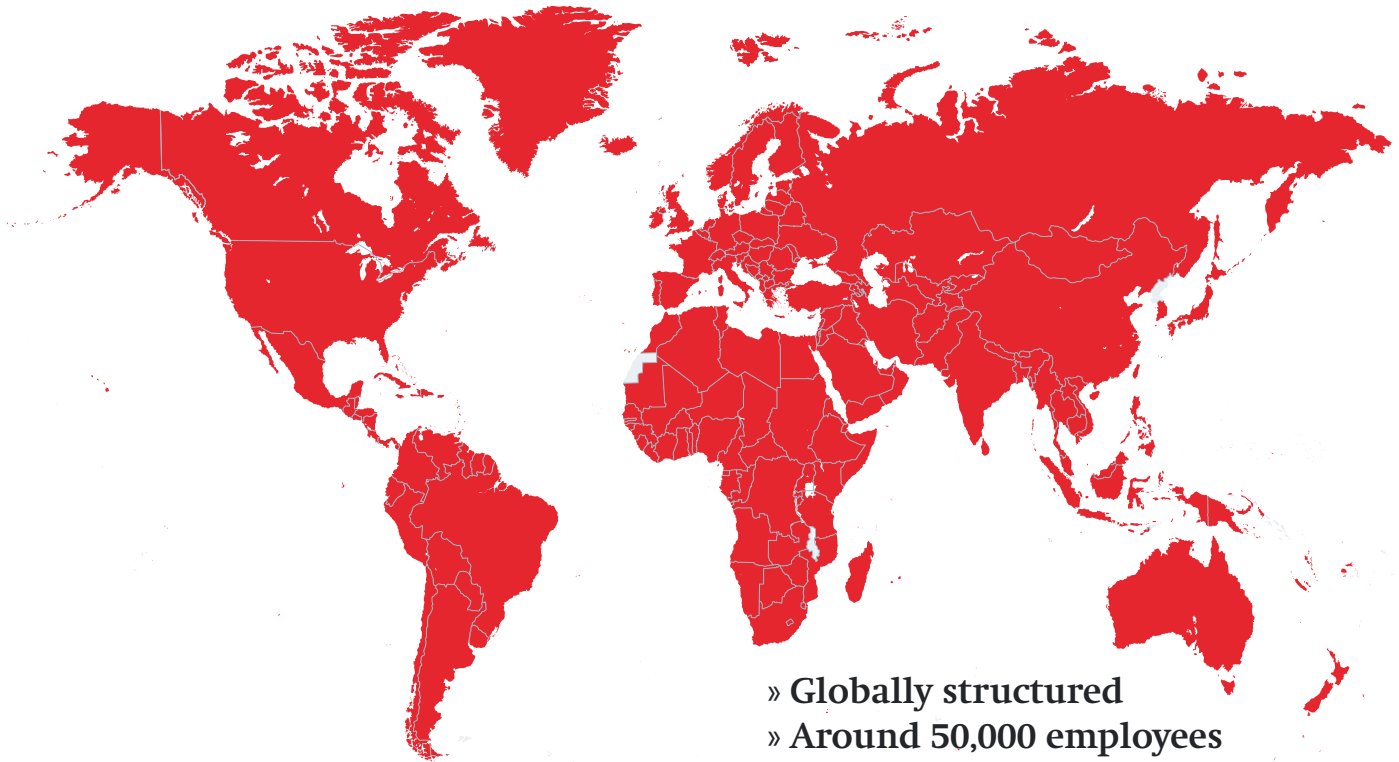
We are successful because of our people. Only with talented, experienced and well-trained employees can we succeed in identifying and satisfying varying customer and consumer needs. Determined to achieve our three strategic priorities, we are committed to strengthening our global team. With a highly skilled workforce of some 50,000, our brands and our technologies, our objective is: **winning together**.

Our three strategic priorities

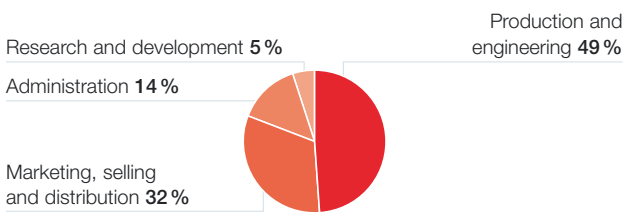


Our employees at a glance

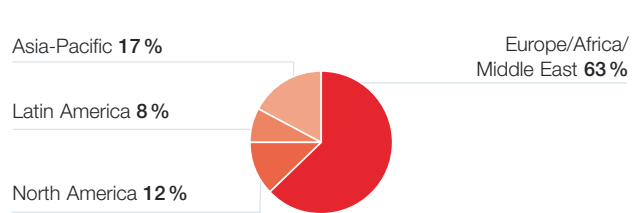
Employees from throughout the world give our company its unique character. They are the foundation of our success. As an international and innovative company, we are committed to developing our people and continuously extending the diversity of our team.



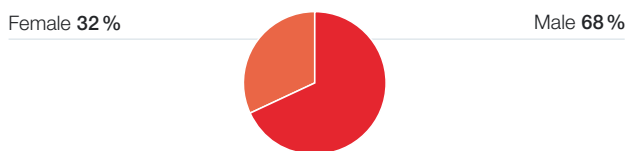
Employees by function



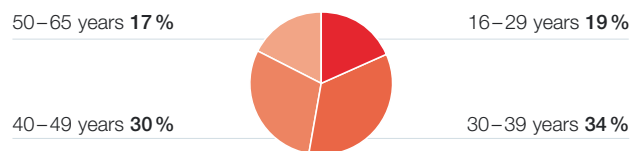
Employees by region



Employees by gender



Employees by age group



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Further information

You will notice a number of cross-references on the pages of this Annual Report for 2009 indicating locations in this publication, in our Sustainability Report for 2009 and on the internet where you can find further information.

- AR** Annual Report
- SR** Sustainability Report
- www** Internet

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Kasper Rorsted
Chairman of the Management Board

Dear Friends of the Company,

2009 was a challenging year both for Henkel and for the world economy as a whole, as the largest economic crisis in many decades took its toll on us all. Despite the difficult business environment, we continued to advance toward our targets, making this anything but a lost year. We were able to convincingly demonstrate, even under adverse market conditions, that we can act quickly and decisively, allowing nothing to stand in the way of our continuing successful growth.

Laundry & Home Care and Cosmetics/Toiletries exhibited strong growth, expanding their market positions in the process; and as the year progressed, our Adhesive Technologies business also began to rebound from the effects of the crisis.

Industrial production experienced a significant decline in demand in a number of important segments, causing the industrial businesses under our Adhesive Technologies umbrella to suffer. However, private consumption was less affected by the economic downturn. Due to the recession, the price of crude oil fell during the first half of 2009; with this, the cost of the related commodity prices also decreased, reducing our own raw material costs. However, as the general economic situation stabilized in the second half of the year, raw material prices picked up again.

We responded consistently and effectively in all areas of our company to the recessive market environment. Unfortunately, this involved some difficult decisions regarding redundancies. This was painful for us but nevertheless important in order to secure the long-term competitiveness of our businesses.

The most important facts relating to fiscal 2009 are as follows:

- » Sales fell nominally by 3.9 percent to 13,573 million euros, and organically by 3.5 percent.
- » Adjusted¹⁾ operating profit came in at 1,364 million euros compared to 1,460 million euros in the previous year.
- » Adjusted¹⁾ net earnings after minority interests fell by 13.0 percent to 822 million euros; and adjusted¹⁾ earnings per preferred share decreased by 12.8 percent to 1.91 euros.
- » There were excellent developments with respect to our net working capital which decreased to 7.8 percent of sales – the first time we have managed to bring this metric down to below 10 percent.
- » We were able to reduce our net debt by 1.0 billion euros to 2.8 billion euros.
- » The Management Board, Shareholders' Committee and Supervisory Board propose that the Annual General Meeting approve an unchanged dividend of 0.53 euros per preferred share and 0.51 euros per ordinary share.

In recognition of this exceptional team performance, I would like to extend my heartfelt thanks to all our employees for their undoubted commitment and hard work!

Significant progress was made in 2009 in pursuit of our three strategic priorities:

1. Achieve our full business potential
2. Focus more on our customers
3. Strengthen our global team

Innovations make strong brands even stronger. We generate more than 30 percent of our sales with products launched

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

within the preceding three years. This makes us one of the strongest innovators in our markets. Again in 2009, we introduced numerous new product ideas into the marketplace, enabling us to score heavily with our customers and consumers. In addition to the sustainability initiatives relevant to the entire company, we are focusing in our consumer businesses on the ever more important aspects of care and convenience. In the Adhesive Technologies business sector, many of our innovations are aligned to new trends in materials, and applications in lightweight construction – for example in the automotive and aircraft industries.

As part of our active portfolio management, we are aiming in particular to further strengthen our leading brands. Today, we already generate around 25 percent of our sales with our three top brands – Schwarzkopf, Loctite and Persil. And our ten largest brands account for more than 40 percent of our revenues. Again last year, we eliminated a number of marginal activities. In spring 2009, for example, we sold our business with adhesive tapes under the brands Duck and Painter's Mate Green in North America. We also divested a number of smaller brands from our Cosmetics/Toiletries business sector in the United States.

The "Global Excellence" efficiency enhancement program, initiated in February 2008 in order to secure the long-term profitability and competitiveness of the Henkel Group, was implemented significantly faster than initially planned. Originally, our aim was to achieve annual savings of around 150 million euros starting in 2011. Following the accelerated execution of the program, we now expect to achieve or exceed these savings as of this year.

The integration of the National Starch businesses we acquired also proceeded more rapidly than originally planned. Here, we exceeded the synergies anticipated for 2009.

Our customers are at the center of everything we do. In order to further cement our employees' awareness in this regard, we made 2009 our Year of the Customer, reviewing

our organizational structures in order to determine where and how we might achieve greater customer focus. And we were able to augment our customer contacts at the highest management level with our "Top-to-Top" initiative, with the objectives of achieving a common strategic alignment, creating tangible added value for our customers and fully and consistently utilizing our own competences – such as our recognized leadership in the field of sustainability/corporate social responsibility (CSR).

Sustainability and responsibility are among the salient features of Henkel's operations. But here too, we want to further improve. The importance of this field of competence becomes particularly apparent in periods of crisis. Hence we again invested a great deal of time and effort pursuing our ambitious sustainability targets in 2009, further reducing energy and water consumption, decreasing waste volumes and cutting the number of occupational incidents at our sites. By reducing energy consumption in production and by manufacturing energy-efficient products, we are able to reduce the CO₂ emissions – the carbon footprint – attributable to our sphere of influence. Henkel's corporate philosophy dictates that every newly introduced product must make a contribution to sustainable development.

Our employees have been the foundation of our success for 133 years, and it is to them that we are dedicating this year's annual report with the motto: A global team – winning together. With open feedback, clear recognition of individual performance and tailored development plans – in short, the right mix of challenge and reward – we are engaging and enhancing the motivation and capabilities of our people. In this way, we are able to ensure that our global team is always a match for the challenges it encounters, providing us with true competitive advantage as we take our businesses forward.

The past financial year saw us redefine our personnel strategy, restructure our human resources organization and further simplify our processes. Using a modern talent

management system, we are able to identify high potentials who we then systematically prepare with individual development programs for the assumption of new and more challenging responsibilities.

With the great progress that we have made in implementing our three strategic priorities, we are well on the way to achieving our financial targets for 2012: namely an average of 3 to 5 percent per year in organic sales growth, increasing our adjusted return on sales to 14 percent and generating average growth of more than 10 percent per year in adjusted earnings per preferred share. We set these targets following very careful analysis of the potential of our portfolio, and the crisis has done nothing to change this potential.

2010 will also not be an easy year. We intend to further refine and align our portfolio and to expand our businesses in the growth regions through selective investment. Strict cost control, the adaptation of our structures in the mature markets, and measures to increase efficiency and competitiveness in our corporate functions are expected to make important contributions to improving our return on sales. Securing our liquidity will also remain a focal point. And we will continue to respond flexibly to the economic developments of our markets, boldly committing to the necessary decisions that result.

On behalf of the Management Board, I would like to thank the Supervisory Board and the Shareholders' Committee for their carefully considered advice and valuable support. I would especially like to express our thanks to Dipl.-Ing. Albrecht Woeste who, as Chairman of the Supervisory Board and of the Shareholders' Committee of many years' standing, was a powerful driving force in Henkel's development until his departure in September 2009. We are now looking forward to a continuation of this successful collaboration with Dr. Simone Bagel-Trah, who has taken over the helm from Mr. Woeste.

And speaking for the entire company, I would like to extend our gratitude to our shareholders for their confidence in us and for the support they have shown for our actions. We are likewise grateful to our customers around the world for their continuing loyalty and their trust in our company, in our brands and in our technologies. As always, our customers remain the focus of our every effort. Finally, we must once again express our thanks to our employees who, in the past year, delivered exceptional performance under irrefutably difficult conditions.

We are confident that we are well equipped to meet the challenges that lie before us. We have a healthy financial base, our businesses are strongly positioned in their respective markets, we have successful brands and we have established a strong presence in the growth regions. We are determined to deliver innovations that offer clear added value for our customers, we shall continue to focus on securing our liquidity, and we have our costs under control.

In short, we are definitely on track and heading for a bright future. With our global team, we can all look forward to winning together in 2010!

Düsseldorf, January 29, 2010



Kasper Rorsted
Chairman of the Management Board



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

Report of the Supervisory Board

Dear Shareholders and Friends of the Company,

Fiscal 2009 was an eventful year. Thanks to its dedicated team, Henkel succeeded in coping with a difficult economic environment by playing to the strengths inherent in each of its business sectors. The two consumer goods businesses Laundry & Home Care and Cosmetics/Toiletries again made outstanding contributions to consolidated sales and earnings in 2009, while the industrial operations under the Adhesive Technologies business sector recovered remarkably from the consequences of the economic crisis in the course of the year.

All our employees around the world deserve great recognition for these achievements. On behalf of the Supervisory Board, I would therefore like to give my thanks to all Henkel personnel for their dedication to our common cause. I would also like to express my gratitude to the members of the Management Board and the Works Councils for their constructive support and close cooperation.

And the Supervisory Board also thanks you, our shareholders, for the loyalty and trust you have shown in our company, its management, its employees, its products and its strategy.

Again in fiscal 2009, the Supervisory Board performed the duties incumbent upon it according to the requirements of legal statute, the corporation's Articles of Association and applicable procedural rules.

Collaboration with the Management Board

During the reporting period, we carefully and regularly monitored the work of the Management Board of Henkel Management AG, which is the sole personally liable partner of the corporation, advising and supporting it in its executive duties, in the strategic further development of the corporation and on individual matters of importance.

Our engagement with the Management Board was characterized by an intensive and collaborative exchange of information. The Management Board kept us regularly informed in detail through both written and verbal communications relating to major issues affecting the corporation and the Group companies. These included, in particular, aspects of the business situation and the development of the Group, 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 restructurings. 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, the Chair of the Supervisory Board also remained in regular contact with the Chair of the Management Board for the purpose of regularly conferring on current developments and salient business events.

Major issues discussed in Supervisory Board meetings

The Supervisory Board met a total of four times in fiscal 2009. At these meetings, we examined in detail the reports of the Management Board and deliberated together with the Management Board on the development of the corporation as well as on strategic issues.

We dealt in depth with the effects of the difficult economic situation and how it was influencing business performance at Henkel. The Adhesive Technologies business sector was the subject of particularly intensive discussion, leading to appropriate measures being introduced to facilitate structural change and cost adjustment.

At the meeting of February 17, 2009, we concerned ourselves primarily with the annual and consolidated financial statements of 2008 as well as the proposals to be put before the Annual General Meeting. We also dealt with the research and development strategy of the company and issues relating to our R&D organization.

Aside from general business development, at our meeting of April 20, 2009, we also discussed in depth the integration of the Adhesives and Electronic Materials divisions of National Starch. We deliberated on our human resources diversity strategy, agreeing the objective of utilizing the different talents, philosophies, perspectives and capabilities of our employees in order to ensure our success in the competitive environment while establishing a balanced and effective organization.

The main issues dealt with at our meeting of September 22 were the financial position and strategy of the Henkel Group, the current status of our customer focus program and the general strategy for brand consolidation and brand management within our business sectors.

At our meeting of December 15, 2009, we conferred in detail on our financial and balance sheet planning, including aspects relating to our income statement and the budgets of the individual business sectors. We also discussed issues arising from the Accounting Law Reform Act [BilMoG] and agreed a corresponding amendment to the procedural rules governing the activities of our Audit Committee.

Members of the Supervisory Board of Henkel AG & Co. KGaA are obliged to declare potential conflicts of interest

to the plenary body and to refrain from participating in matters which could lead to such conflict of interest. Dr. h.c. Bernhard Walter, Member of the Supervisory Board of Henkel AG & Co. KGaA, is also a member of the supervisory board of Daimler AG. In order to avoid a potential conflict of interest in conjunction with a now settled legal dispute concerning sponsorship claims of Daimler's Formula One team, Brawn GP, Dr. h.c. Walter has, at his own request, been excluded from discussion of this matter in the Supervisory Board and has not received any information whatsoever in this regard.

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 different 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 page 136](#).

These committees do the groundwork preparing for certain resolutions passed by the plenary Supervisory Board; they also take decisions related to specific responsibilities assigned to them in accordance with relevant procedural rules. In the year under review, the respective chairpersons of the committees each provided detailed reports of the results of their meetings to the plenary Supervisory Board.

The Audit Committee met four times in 2009. During these sessions, the members primarily reviewed the quarterly reports and the half-year financial report, discussing their contents with the Management Board. The meeting of August 3, 2009, at which the half-year financial report was discussed, was also attended by the auditor which submitted a report on the results of its review. This gave rise to no objections.

Further issues of importance included the implications of the Accounting Law Reform Act with respect to the work of the Audit Committee, and also the modifications required to relevant procedural rules. We further deliberated on the question of the effectiveness of Henkel's internal control and risk management system, and the status reports of the Chief Compliance Officer and of the Head of Internal Audit. The audit plan submitted by Internal Audit was also approved at this session.

The Audit Committee mandated the external auditor, pursuant to the latter's appointment by the 2009 Annual General Meeting, to audit the annual and consolidated financial statements for fiscal 2009, at the same time defining

the main areas on which the audit was to concentrate. The audit fee was also established.

At the meeting of February 22, 2010, the Audit Committee discussed together with the external auditor the annual and consolidated financial statements for fiscal 2009 and also the risk report, thereupon preparing the corresponding resolutions for consideration by the plenary Supervisory Board. 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 duly received; the auditor likewise provided details of the non-audit services rendered in fiscal 2009 and those envisaged for fiscal 2010.

The Nominations Committee made appropriate recommendations in preparation for the resolution to be formulated by the Supervisory Board and placed before the 2010 Annual General Meeting with respect to the upcoming supplementary elections to the Supervisory Board.

Corporate governance and declaration of compliance

In 2009, the Supervisory Board consulted on issues relating to corporate governance, and in particular, the latest edition of the German Corporate Governance Code. For details relating to the corporation's corporate governance policy, please refer to the corporate governance report on [AR pages 22 to 26](#), with which we fully acquiesce.

At the meeting of February 23, 2010, 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 2010. The full wording of the current and the previous declarations of compliance can be found on the company website www.henkel.com.

Efficiency review

The Supervisory Board and the Audit Committee perform an internal review of their operational efficiency at regular intervals on the basis of comprehensive checklists. These include questions relating to corporate governance and potential for further improvement.

Corresponding internal reviews were conducted in the period under review. At the meetings of the Audit Committee on February 22, 2010, and of the Supervisory Board on February 23, 2010, the results of these self-assessments were discussed in detail. There were no reservations with respect to the operational efficiency of either the Supervisory Board or the Audit Committee, nor with respect to the requisite independence of their members.

Annual and consolidated financial statements; audit

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

The auditor appointed for 2009 by the last Annual General Meeting – KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin – has examined the 2009 annual financial statements of Henkel AG & Co. KGaA and the 2009 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 for the year under review, in compliance with International Financial Reporting Standards. KPMG further confirms that the consolidated financial statements and Group management report for the year under review meet the requirements of Clause 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 laid before all members of the Supervisory Board in good time. We examined these documents and discussed them at our meeting of February 23, 2010 attended by the auditor, which reported on its main audit findings. We received the audit reports and voiced our acquiescence therewith. Having received the final results of the review conducted by the Audit Committee and concluded our own examination, we see no reason for objection. At our meeting of February 23, 2010, we approved the annual financial statements, the consolidated financial statements and the management reports as prepared by the personally liable partner.

We discussed the recommendation by the personally liable partner for appropriation of the profit of Henkel AG &

Co. KGaA, taking into account the financial and earnings position of the corporation, and expressed our endorsement of said recommendation. At this meeting, we also ratified our proposals for resolution to be presented before the Annual General Meeting relating to the appointment of the external auditor for the next financial year, taking into account the recommendations of the Audit Committee, and discussed the 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 here was on the risk management system in place at Henkel and any reportable major individual risks. There were no identifiable risks that could endanger 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 also our considered opinion that the risk management system corresponds to the statutory requirements.

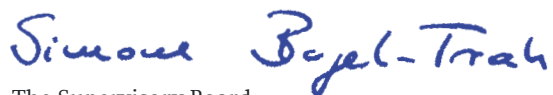
Changes in the Supervisory Board and the Management Board

Dipl.-Ing. Albrecht Woeste, who joined our Supervisory Board in 1988 and became its Chairman in 1990, resigned his offices effective the end of September 22, 2009. Dr. Simone Bagel-Trah was elected the new Chairwoman. Following a decision by Düsseldorf District Court, Mr. Johann-Christoph Frey was appointed as a new shareholder-representative member of the Supervisory Board, this appointment being limited in accordance with the recommendations of the German Corporate Governance Code to the end of the 2010 Annual General Meeting.

We expressed our deep gratitude to Dipl.-Ing. Albrecht Woeste for his more than twenty highly successful years on the Supervisory Board and his unwavering commitment to the long-term success and solid financial policies of the company. He was a champion of the fairness, mutual trust and respect that characterize our corporate culture. With great pleasure, we have appointed him Honorary Chairman of the Henkel Group in recognition of his services to the corporation.

There were no changes to the Management Board in 2009.

Düsseldorf, February 23, 2010



The Supervisory Board

Dr. Simone Bagel-Trah (Chairwoman)

Management Board

Sitting from the left:

Dr. Lothar Steinebach

Executive Vice President
Finance/Purchasing/IT/Law,
born 1948; with Henkel since 1980.

Kasper Rorsted

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

Standing from the left:

Dr. Friedrich Stara

Executive Vice President
Laundry & Home Care,
born 1949; with Henkel since 1976.

Hans Van Bylen

Executive Vice President
Cosmetics/Toiletries,
born 1961; with Henkel since 1984.

Thomas Geitner

Executive Vice President
Adhesive Technologies,
born 1955; with Henkel since 2008.



“Diversity is a key factor in Henkel’s success. We want to have a versatile team that is both motivated and capable while at the same time being ready and willing to constantly improve. Standing shoulder to shoulder, we will be able to meet and master the challenges that the future has in store.”

Kasper Rorsted

“Profitable growth is achieved not just through isolated measures aimed at increasing sales and earnings. It is also a function of the motivation felt by our employees and their identification with our values and objectives. Only with strong and committed teams will we be able to successfully develop and sell products while also keeping our costs competitive. We have a great team dedicated to achieving our ambitious goals. And we are dedicated to further strengthening and developing that team.”

Dr. Lothar Steinebach

“Creativity and entrepreneurship are among the indispensable attributes of our team. Only with these tools at our fingertips can we think beyond the current status quo and develop true innovations capable of securing profitable growth over the longer term. Our task is to give our employees the motivation and the necessary freedom to be creative.”

Dr. Friedrich Stara

“We are interested in our employees not just as factors of production but also as people and colleagues. Trust, constructive criticism and communication are essential tools that every manager must be able to use with expertise. Leadership is a ‘people skill’ that has to be demonstrated at every level – starting with the board.”

Hans Van Bylen

“It is important that our people adopt an entrepreneurial approach, accept responsibility and show the right kind of fighting spirit – for the sake of our customers and for the sake of Henkel. Commitment and creative scope are the yardsticks by which we gage ourselves and our team.”

Thomas Geitner

A global team – winning together

“Strengthening our global team” is one of the three strategic priorities that Henkel is pursuing. As a global team, our aim is to be successful in our markets and to win together with our customers. It is to this end that we align the principles underlying our human resources work, placing our focus on the following five core elements:

Harnessing internationality and diversity

There are people from 116 nations working for Henkel. The number of company employees engaged outside Germany is continuously rising – and has now reached more than 80 percent. However, it is not just employees of different nationalities but also a balance of gender and experience in our teams that serves to enrich our corporate culture. Such a mix gives us a decisive competitive advantage – because it enables us to better understand our markets and therefore secure long-term success.

Talent identification and development

We assess all employees on an objective, fair and transparent basis. In 2008, we introduced a new process of appraisal and development for our managerial staff, applying the same set of global criteria: in annual “Development Round Tables,” line managers deliberate on the performance and potential of their employees and prepare individual development plans for them.

Differentiated compensation

We analyze the personal contribution made by our employees to our corporate

success and link it in a clear and transparent manner to their individual compensation. For this, the managers responsible agree specific targets with their employees and provide regular constructive feedback regarding the attainment of those objectives, with the two parties jointly agreeing on performance-promoting measures.

Providing clear feedback

Open feedback on the performance levels achieved, with due reference to our expectations, is decisive for the success of Henkel. It is the task of all line managers to identify the strengths and development potential of their employees and to discuss with them how to best harness these. The measures derived from such discussions lead to performance enhancement and enable each employee to be ideally deployed in accordance with their competences.

Succession planning

We further improved our succession planning in 2009 in order to ensure the best possible assignment of personnel to the most important managerial positions over the short, medium and long term. Our approach is to identify suitable successors as part of our talent management process and to agree measures enabling their further development. These will likely include specific training courses and job rotation on the basis of our “Triple Two” program in which up-and-coming managers are encouraged to work in two business sectors, in two countries and in two functions.



Human Resources at Henkel supports all the business sectors with tailored measures for the further development of their teams while also helping the company to attract the best employees available.

From the left:

Zuzana Schütz-Halkova
Henkel's Head of HR in
Central and Eastern Europe

Kathrin Menges
Head of Global HR at
Henkel

Edmundo Gonzales
Manager – Remuneration
and Bonus Payments

Dorian Williams
Head of Henkel HR in
Africa/Middle East

Christina Rositzka
International Job Rotation
Officer

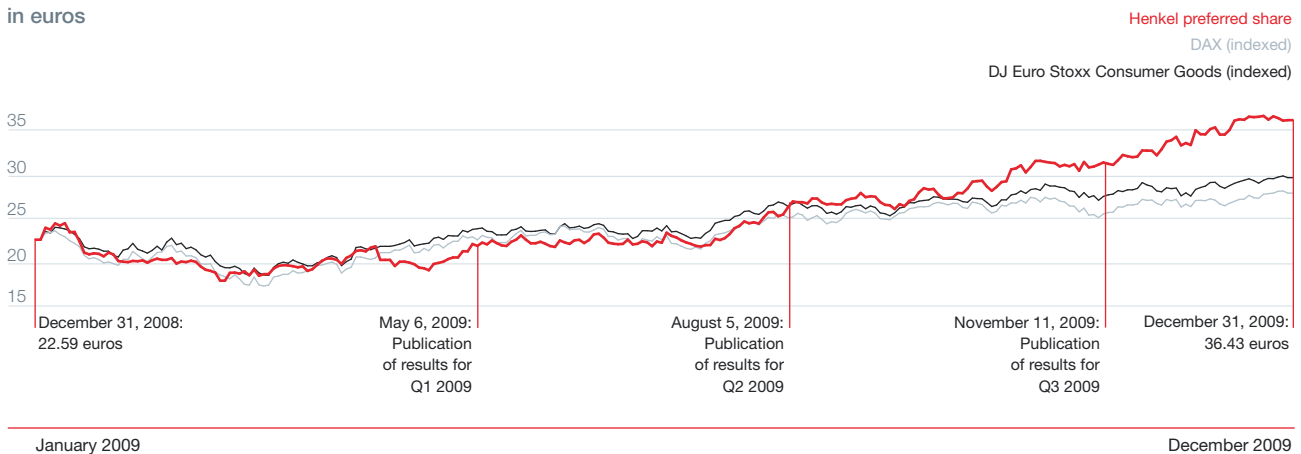
Shares and bonds

- » **Henkel share price outpaces overall market**
- » **International, widely diversified shareholder structure**
- » **Capital market communication further extended**

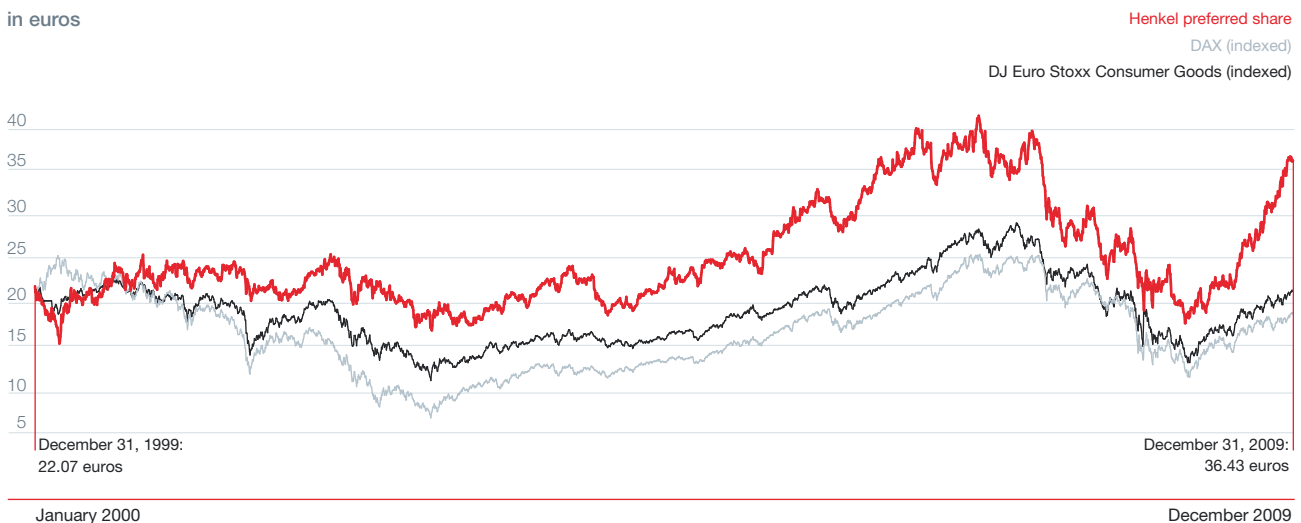
Henkel share prices experienced above-average increases in 2009. Thanks to signs of an end to the global recession and the first positive growth forecasts for the world economy in 2010, the DAX rose 23.9 percent compared to the closing price at the end of 2008. The industry benchmark in the form of the Dow Jones Euro Stoxx Consumer Goods index increased by 31.5 percent. In this strong market environment, the price of Henkel’s preferred shares even outpaced that increase, closing the year at 36.43 euros, 61.3 percent above the prior-year level, while our ordinary shares closed at 31.15 euros, a gain of 66.1 percent.

In the first three months of 2009, Henkel shares initially weakened slightly, as did the market as a whole. Then there was a further dip in Henkel share prices as a response to our ad-hoc announcement of April 9, 2009. However, our shares gained steadily in value thereafter and for the remainder of the year. This price rise was boosted by the fact that an increasing number of analysts and investors appeared to feel that, although ambitious, our financial targets for 2012 were becoming increasingly achievable. Toward the end of the year, our preferred shares began to consistently improve on their year-high prices, completing a generally gratifying performance for 2009 and substantially outperforming the relevant benchmark indexes.

Henkel preferred share performance versus market in 2009
in euros



Henkel preferred share performance versus market 2000 to 2009
in euros



Key data on Henkel shares 2005 to 2009

in euros ¹⁾		2005	2006	2007	2008	2009	
Earnings per share							
Ordinary share		1.75	1.97	2.12	2.81	1.38	
Preferred share		1.77	1.99	2.14	2.83	1.40	
Share price at year-end²⁾							
Ordinary share		26.18	32.73	34.95	18.75	31.15	
Preferred share		28.33	37.16	38.43	22.59	36.43	
High for the year²⁾							
Ordinary share		26.18	33.14	37.50	34.95	31.60	
Preferred share		28.37	37.82	41.60	38.43	36.87	
Low for the year²⁾							
Ordinary share		20.32	25.66	29.96	16.68	16.19	
Preferred share		21.46	28.21	33.70	19.30	17.84	
Dividends							
Ordinary share		0.43	0.48	0.51	0.51	0.51 ³⁾	
Preferred share		0.45	0.50	0.53	0.53	0.53 ³⁾	
Market capitalization²⁾		in bn euros	11.8	15.1	15.9	8.9	14.6
Ordinary share	in bn euros	6.8	8.5	9.1	4.9	8.1	
Preferred share	in bn euros	5.0	6.6	6.8	4.0	6.5	

¹⁾ Comparable based on share split (1:3) of June 18, 2007

²⁾ Closing share prices, Xetra trading system

³⁾ Proposed

Trading volumes decreased compared to the previous year, as did the average trading volume figures for the DAX as a whole. Each trading day saw an average of 1.0 million preferred shares changing hands (previous year: 1.7 million). The average volume in the case of our ordinary shares decreased to 200,000 per trading day (previous year: 330,000). Due to the increase in price levels, the market capitalization of our ordinary and preferred shares combined rose from 8.9 billion euros to 14.6 billion euros.

Henkel shares remain an attractive investment for long-term investors. Shareholders who invested 1,000 euros when Henkel's preferred shares were issued in 1985, and then re-invested the dividends received (excluding taxes) in the stock, would have had a portfolio value of about 11,070 euros by the end of 2009. This represents investment growth of 1,007 percent or an average yield of 10.4 percent per year. Over the same period, DAX tracking would have provided an annual yield of 7.0 percent. And over the last five and ten years, the Henkel share has shown an average yield of 13.4 and 7.0 percent per year respectively.

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 invest in 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 5.1 million (end of 2008: 6.3 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

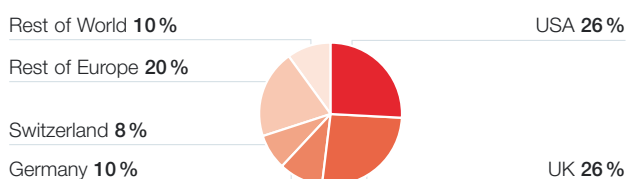
The international significance of Henkel preferred shares derives not least from their inclusion in major indexes that serve as important indicators for the capital market and as benchmarks for fund managers. Particularly noteworthy in this respect are the MSCI World, the Dow Jones Euro Stoxx, and the 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 2009, the market capitalization of the DAX-relevant preferred shares was 6.5 billion euros, placing Henkel 20th among the DAX companies (2008: 24th). In terms of trading volumes, Henkel was ranked 28th on the list (2008: 29th). Our DAX weighting was 1.22 percent.

International shareholder structure

According to notices of disclosure received by the company, the Henkel family owns a majority of the ordinary shares amounting to 52.57 percent. Silchester International Investors Limited headquartered in London, UK, holds 3.01 percent of our ordinary shares. We have received no further notices of disclosure from other shareholders indicating a notifiable shareholding in excess of 3 percent of the voting shares. The ownership pattern of our preferred shares – the significantly more liquid class of stock – shows a free float of 100 percent. A majority of these shares are owned by institutional investors with globally distributed shareholdings.

**Shareholder structure:
Institutional investors holding Henkel preferred shares**



Source: Thomson Reuters

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, 2009, this treasury stock amounted to 4.5 million preferred shares.

Employee shares

Since 2001, Henkel has been operating a share ownership plan for all employees worldwide. 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 2009. The number of participants in this Employee Share Program (ESP) decreased in the year under review with around 9,500 employees in 56 countries buying Henkel shares within the framework of the 2009 tranche. At year-end, around 14,000 employees held a total of some four million shares within the ESP, representing roughly

2.2 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 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 bn euros	1.0 bn euros	1.3 bn 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

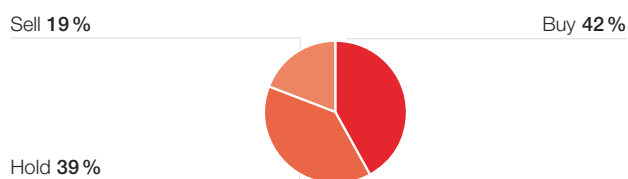
¹⁾ First call option for Henkel on November 25, 2015

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/ir.

Committed to 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.

Analyst recommendations



At December 31, 2009; basis: 30 equity analysts

Henkel places great importance on meaningful dialogue with both investors and analysts. In 2009, 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 and North America. The two highlights of the year

were our Analyst and Investor Conference held in Düsseldorf on February 25, 2009, and our Investor Day for the Laundry & Home Care business sector which took place on September 2, 2009. At this latter conference, Dr. Friedrich Stara and his management team presented the strategy and new developments of the Laundry & Home Care business sector to about 50 analysts and investors 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 latter also offers all shareholders the possibility of obtaining extensive information from Henkel's management.

The quality of our capital market communication was again evaluated in 2009 by various independent ranking organizations. Once more, our Investor Relations team garnered a number of top positions in various comparisons with European corporations in the home & personal care category.

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



Interdisciplinary teamwork on behalf of the operating business sectors: Experts from Purchasing working together with packaging developers in order to harmonize the color composition of plastics-based containers. The plastic granulates they are selecting – known as master batches – are used in the manufacture of bottles or caps to give them their color. By working together, the team lays the foundations for improved efficiency and cost economy.

From the left:

Ulrike Danne
Packaging Manager –
Cosmetics/Toiletries

Dr. Christian Kirsten
Head of Purchasing –
Cosmetics/Toiletries
Worldwide

Manuel Delgado
Purchasing Manager –
Plastics Material Group
and Head of Purchasing
Spain/Portugal

Dr. Janine Voß
Project Manager for
Master Batches in the
Purchasing Dept.

Robert Bossuyt
Head of Purchasing –
Laundry & Home Care
Worldwide

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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 the 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 principles:

- » **Value creation** as the foundation of our managerial 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 Clause 289 (4), Clause 289 (a) and Clause 315 (4) of the German Commercial Code [HGB].

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 Clause 278 (1) German Joint Stock Corporation Act [AktG]).

There are the following major differences with respect 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 (Clause 278 (2), Clause 283 AktG in conjunction with Article 11 of

the Articles of Association [Corporate Bylaws]). All shares of Henkel Management AG are held by the corporation.

- » 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 partners. 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 (Clause 285 (2) AktG) or relate to the adoption of annual financial statements (Clause 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 five functions:

1. It acts in place of the AGM in guiding the business activities of the corporation.
2. It decides on the appointment and dismissal of personally liable partners.
3. It holds both the power of representation and executive powers over the legal relationships prevailing between the corporation and Henkel Management AG as the personally liable partner.
4. It exercises the voting rights of the corporation in the General Meeting of Henkel Management AG.
5. And it issues rules of procedure incumbent upon Henkel Management AG (Clause 278 (2) AktG in conjunction with Clauses 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 preferred shares (proportion of capital stock: 178,162,875 euros or 40.7 percent).

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 unappropriated profit 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 (Article 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 (Clause 140 (2) AktG). Cancellation or limitation of this preferred dividend requires the consent of the holders of preferred shares (Clause 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 the Annual 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 (Clause 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 9, 2011, 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 provided that the issue price of the new shares is not significantly below the quoted market price of the shares of the same class at the time of final stipulation of the issue price. They may also be set aside in order to facilitate the disposal of fractional amounts of shares.

In addition, the personally liable partner is authorized to purchase ordinary and/or preferred shares of the corporation at any time up to October 19, 2010, subject to the condition that the shares acquired on the basis of such authorization, together with the other shares that the corporation has already acquired and holds as treasury stock, shall not at any time exceed 10 percent in total of the capital stock. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury stock 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.

Major shareholders

According to notifications received by the company on December 30, 2009, a total of 52.57 percent of the voting rights is 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, Shareholders' Committee, Supervisory Board; other committees

The Management Board of Henkel Management AG ("Management Board"), which is responsible for the corporation's operating business, the Shareholders' Committee and the

Supervisory Board of the corporation cooperate closely for the benefit of the organization.

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

In keeping with good corporate management practice, the Management Board informs the Shareholders' Committee and the Supervisory Board 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 the risk situation and risk management.

The Shareholders' Committee has determined the transactions of fundamental significance that are subject to its consent (Article 26 of the Articles of Association). These relate, in particular, to 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 and also the spheres of authority of the General Meeting in matters subject to statutory control.

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 deals principally with personnel matters relating to the members of the Management Board, human resources strategy, and remuneration. It is also concerned with successor planning and identifying management potential within the individual business sectors, taking into account relevant diversity aspects.

The Supervisory Board passes its resolutions by 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 represen-

tatives on the Supervisory Board. The Chairperson of the Audit Committee is elected from candidates proposed by the shareholder representatives on the Supervisory Board. The Chairperson of the Audit Committee is someone other than the Chairperson of the Supervisory Board or a former member of the Management Board, and should be an expert in the fields of accountancy and auditing, and in the application of internal checks and balances. 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 checks and balances, the risk management system and the internal auditing and review system, and with compliance issues. It further discusses with the Management Board the quarterly reports and the financial report for the half-year prior to their 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 members 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 are performing their duties. This self-assessment is performed on the basis of a comprehensive checklist which also contains items 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.

Cooperation within the Management Board of Henkel Management AG and the division of responsibilities are regulated by rules of procedure issued by the Supervisory

Board of Henkel Management AG. The Management Board reaches its decisions by 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. We are of the view that, in this respect, there are no conflicts of interest or doubts as to the independence of the members concerned.

For more details on the composition of the Management Board, the Supervisory Board and the Shareholders' Committee and also the subcommittees established within the Supervisory Board and the committees of the Shareholders' Committee, please refer to  pages 134 to 140.

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

The corporation, our management bodies and our employees around the world orientate their activities to our corporate vision and values so that our daily work may be constantly aligned to the guiding principles of sustainable development. These provide the framework governing the conduct and actions of Henkel employees in all areas of business and in all localities in which Henkel operates. They are an expression of our own corporate culture.

Henkel is committed to ensuring that all business transactions are conducted in an ethically irreproachable, legal fashion. The Management Board has therefore issued a series of Group-wide codes, standards and guidelines governing the behavior of all Henkel employees. These regulatory instruments are regularly reviewed and amended as appropriate. 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. Taken together, 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 com-

pliance 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, 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 locally and regionally responsible 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 to the Management Board and also the Audit Committee of the Supervisory Board on identified compliance violations.

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. This agency 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. Further compliance-relevant areas relate 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. There are also rules that go beyond the legal requirements, governing the behavior of the members of the Board of Management, the Shareholders' Committee and the Supervisory Board, and also employees of the corporation who, due to their function or involvement in projects, have access to insider information.

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

Application of the German Corporate Governance Code

Notwithstanding 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 contracts of employment for members of the Management Board contain no severance pay cap in the event of premature termination of their tenure as executives of the corporation without good reason, i.e. there is no limitation to a possible severance payout to the usual maximum of two years' emoluments. (2) In order to protect the legitimate interests and private spheres of the members of the management bodies who are also members of the Henkel family, their individual shareholdings are not disclosed unless required by compelling statutory obligations. 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 of Compliance, 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 corporation. The members of the Management Board together hold less than 1 percent of the shares issued by the corporation.

In fiscal 2009, a total of three transactions were notified in compliance with Clause 15a WpHG [Securities Trading Act, "Directors' Dealings"]. One member of the Shareholders' Committee sold a total of 200,000 ordinary shares. For further details in this regard, please go to our website www.henkel.com/ir.

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 indicates the level and structure of the remuneration paid. The Remuneration Report takes into account the recommendations of the German Corporate Governance Code and contains all the information required

according to Clause 285 sentence 1 no. 9, Clause 289 (2) no. 5, Clause 314 (1) no. 6 and Clause 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

With the Act on the Appropriateness of Management Board Remuneration [VorstAG], which passed into German law on August 5, 2009, the legislature is pursuing the objective of linking executive compensation to a sustainable corporate management approach aligned to long-term benefits. The current system of compensation for the members of Henkel's Management Board is already largely governed by these principles. Nevertheless, the Supervisory Board of Henkel Management AG has resolved to review the remuneration system once more in all its details and, where appropriate, to introduce modifications in order to further enhance the already sustainable and long-term alignment of the corporation's executive compensation mix. The Annual General Meeting will be duly informed of the current status of this review.

Regulation

Regulation and confirmation of compensation for members of the Management Board of Henkel Management AG are the responsibility of the Supervisory Board of Henkel Management AG in consultation with the Human Resources Subcommittee of the Shareholders' Committee. The Supervisory Board of Henkel Management AG is comprised of three members of the Shareholders' Committee. The compensation system is regularly reviewed in terms of structure and the amounts involved. In order to ensure the competitiveness of the overall remuneration package, this process takes into account the size and international activities of the corporation, its economic position, the level and structure of remuneration encountered in similar companies and also the general compensation structure within the Henkel organization.

Structure and amounts

In accordance with the objective of achieving a sustainable increase in shareholder value, the remuneration of the Management Board is characterized by a high proportion of performance-related compensation. The package comprises

three components: a fixed salary, a variable performance-related cash payment (short-term incentive/STI) and a variable performance-related long-term incentive (LTI) in the form of a share-based payment. Added to these emoluments are ancillary benefits and earnings-linked pension entitlements. The components in detail:

Fixed salary

The fixed salary is paid monthly. It is determined on the basis of the functions, responsibilities and period of Management Board service of the recipients concerned.

Short-term incentive (STI)

The performance criteria governing the short-term incentive are primarily return on capital employed (ROCE) and earnings per preferred share (EPS). The individual performance of the Management Board member concerned, and the size, significance and development of the business/functional unit(s) involved are also taken into account. Payment is made in arrears on an annual basis as a function of the performance achieved in the immediately preceding financial year.

Long-term incentive (LTI)

Each member of the Management Board is 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 (CPUs) – per financial year (= tranche). On expiry of the performance period, the number and the value of the CPUs due are determined and the resulting tranche income is paid in cash. Each member of the Management Board participating in a tranche is required to acquire a personal stake by investing in Henkel preferred shares to the value of 25 percent of the gross tranche payout – this corresponds to around half the amount paid out in cash – 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 to the average price in January of the third financial year following the year of issue (refer-

ence 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.

Other emoluments

The other emoluments largely relate to benefits arising out of standard commercial insurance policies and the provision of a company car.

Other regulatory provisions

In the event of members of the Management Board taking retirement, they are entitled to continued payment of their remuneration for a further six months, but not beyond the month of their 65th birthday.

The corporation maintains on behalf of members of 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 event up to a maximum of one-and-a-half times their fixed annual salary for loss events occurring within a financial year.

Remuneration for 2009

Effective the end of the Annual General Meeting on April 14, 2008, Henkel Management AG joined the corporation as its sole personally liable partner, replacing the former management of the corporation. The figures for the previous year indicated in the following refer to the remuneration received for the entire period of fiscal 2008, i.e. including the Management Board emoluments in the period from January 1, 2008 until conclusion of the Annual General Meeting on April 14, 2008.

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 amounted to 10,568k euros (2008: 13,270k euros). Of the total cash emoluments of 9,651k euros paid in respect of 2009 (2008: 11,743k euros), 3,531k euros was in fixed salary (2008: 3,763k euros), 5,953k euros was from the short-term incentive (2008: 7,808k euros) and 167k euros was in respect of other emoluments (2008: 172k euros). Also included in the total remuneration are the CPUs granted to the members of the Management Board for 2009 as LTI, which become payable in 2012 as a function of the degree of attainment of the associated performance targets. It is a legal requirement that a value be disclosed in the year of grant, and this value has been calculated based on an assumed increase of both parameters (EPS/share price) of 21 percent over the performance period, giving an imputed amount of 917k euros (2008: 1,527k euros).

The remuneration of the individual members of the Management Board in the year under review totaling 11,295k euros is indicated in the table below together with a breakdown according to the individual components referred to above.

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 after their 62nd birthday. The actual percentage individually determined for each executive is made up of two components: the so-called base percentage rate derived from the vested pension entitlement earned prior to entry into the former or latter Management Board, and an annual percentage increase of the base percentage during the executive's membership of the former and latter Management Board.

Effective January 1, 2005, we changed the pension system for new members of the Management Board to a defined contribution scheme. Once a covered event occurs, the affected members of the Management Board 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 fixed salary and of the short-term incentive, this percentage being the same for all members of

Remuneration of the Management Board

in k euros

		Cash components			Total cash emoluments	Value of long-term incentive ¹⁾	Total remuneration ¹⁾
		Fixed salary	Short-term incentive	Other emoluments			
Kasper Rorsted ²⁾	2009	963.0	1,658.1	25.9	2,647.0	189.7	2,836.7
	2008	856.5	1,820.6	53.8	2,730.9	293.8	3,024.7
Prof. Dr. Ulrich Lehner ³⁾ (until April 14, 2008)	2009	–	–	–	–	–	–
	2008	262.5	706.2	14.1	982.8	28.6	1,011.4
Thomas Geitner (since March 1, 2008)	2009	642.0	1,068.8	25.2	1,736.0	189.7	1,925.7
	2008	501.0	975.6	24.1	1,500.7	277.4	1,778.1
Alois Linder ³⁾ (until June 18, 2008)	2009	–	–	–	–	–	–
	2008	280.0	794.5	11.1	1,085.6	45.7	1,131.3
Dr. Friedrich Stara ³⁾	2009	642.0	1,068.8	18.9	1,729.7	158.1	1,887.8
	2008	621.0	1,133.8	30.2	1,785.0	293.8	2,078.8
Dr. Lothar Steinebach	2009	642.0	1,088.8	23.4	1,754.2	189.7	1,943.9
	2008	621.0	1,203.8	22.7	1,847.5	293.8	2,141.3
Hans Van Bylen	2009	642.0	1,068.8	73.1	1,783.9	189.7	1,973.6
	2008	621.0	1,173.8	15.8	1,810.6	293.8	2,104.4
Total	2009	3,531.0	5,953.3	166.5	9,650.8	916.9	10,567.7
		33.4 %	56.3 %	1.6 %		8.7 %	100.0 %
Total	2008	3,763.0	7,808.3	171.8	11,743.1	1,526.9	13,270.0
		28.4 %	58.8 %	1.3 %		11.5 %	100.0 %

¹⁾ 2009 LTI payout in 2012; these figures will only be attained in the event of EPS/share price increasing by 21 percent in the performance period

²⁾ In addition to the emoluments indicated above and those for services rendered during the financial year, in 2009 Mr. Rorsted was also reimbursed expenditures on security measures at his home plus removal expenses amounting to 727k euros in accordance with agreements relating to his appointment to the Management Board

³⁾ 2008 LTI for Messrs. Lehner/Linder only up to time of departure in 2008; 2009 LTI for Mr. Stara calculated up to standard retirement age in 2011

Defined benefit

in euros	Retirement pension p.a. on onset of pension as of balance sheet date	Change in pension provisions for 2009
Dr. Lothar Steinebach	385,200	1,086,607

Defined contribution

in euros	Superannuation lump sum		Basic annuity	
	Total lump sum	Addition to superannuation lump sum 2009	Total basic annuity (p.a.)	Addition to basic annuity for 2009
Kasper Forsted	1,486,192.50	489,892.50	1,273.65	242.78
Dr. Friedrich Stara	1,178,325.00	308,475.00	624.35	126.86
Hans Van Bylen	1,175,669.10	315,675.00	1,139.54	230.69
Thomas Geitner	361,042.50	280,012.50	349.34	170.35

the Management Board. 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. This ensures the establishment of a performance-related pension system.

The pension benefits accruing to the members of the former and latter Management Board as of the balance sheet date, and also the contributions to the pension scheme made in 2009, are shown in the tables above.

A total of 78,612k euros (2008: 58,613k euros) has been provided for pension obligations to former members of the former and latter Management Board and the former directors of the legal predecessor of Henkel KGaA, and their surviving dependants. Amounts paid to such recipients during the year under review totaled 6,311k euros (2008: 12,200k 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 receives 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

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.

Structure and amounts

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 Shareholders' Committee respectively.

The remuneration package comprises three components: a fixed fee, a variable, dividend-related bonus and a variable performance-related long-term incentive (LTI) based on the success of the corporation. 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 over a three-year reference period. The earnings per share (EPS) of the financial year preceding the payment-related year is compared with the EPS of the second financial year following the payment-related year. 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 being adjusted for exceptional items.

However, based on the single rate governing the remunerations payable to a member, the total of the dividend bonus and the long-term incentive is 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 receive double.

Members of the Supervisory Board who are also members of one or more committees 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 a 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 is only paid once. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses arising from the performance 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 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 of the Shareholders' Committee, there is an own-risk deductible amounting to 10 percent per 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 2009

Total remuneration paid to the members of the Supervisory Board (fixed fee, dividend bonus, attendance fee, components payable for committee activity and long-term incentive for 2009) for the year under review amounted to 1,425k euros plus VAT (2008: 1,231k euros plus VAT). Of the total cash emoluments paid for 2009 (fixed fee, dividend bonus, attendance fee and components payable for committee activity) amounting to 1,168k euros plus VAT of 198k euros (2008: 974k euros plus VAT of 144k euros), 350k euros was in fixed fees, 588k euros in dividend bonus, 31k euros in attendance fees and 199k euros in components payable for committee activity (including relevant additional attendance fees).

The total remuneration of the members of the Shareholders' Committee for the year under review (fixed fee, dividend bonus, components payable for subcommittee activity and LTI 2009) amounted to 2,345k euros (2008: 2,303k euros). Of the total cash emoluments paid for 2009 (fixed fee and dividend bonus, including the components payable for subcommittee activity) amounting to 1,994k euros (2008: 1,959k euros), 593k euros was in fixed fee, 398k euros in dividend bonus and 1,003k euros in remuneration for subcommittee activity (excluding the LTI amount due).

The dividend bonus in each case was based on a dividend of 0.53 euros per preferred share.

Also included in the total remunerations was the long-term incentive (LTI) granted to the members of the Supervisory Board and of the Shareholders' Committee for 2009 in the form of a deferred conditional payment entitlement. This will be paid out following the 2012 Annual General Meeting as a function of the earnings per preferred share (EPS) achieved in 2011. It is a legal requirement that an LTI value be disclosed in the year of grant. According to our Articles of Association, the total of dividend bonus and LTI is limited to a ceiling of 50,000 euros per ordinary member. Given this upper maximum, and assuming an increase in EPS of 21 percent in the performance period, the totals applicable for 2009 are 257k euros for the Supervisory Board and 351k euros for the Shareholders' Committee (including remuneration components for (sub)committee activity).

The remuneration of the individual members of the Supervisory Board and of the Shareholders' Committee for the year under review is indicated in the tables overleaf, together with a breakdown according to the individual components referred to above.

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 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.

Remuneration of the Supervisory Board
 in euros

		Cash components				Total cash emoluments	Value of long-term incentive ²⁾	Total remuneration ³⁾
		Fixed fee	Dividend bonus	Attendance fee	Fee for sub-committee activity ¹⁾			
Dr. Simone Bagel-Trah ⁴⁾	2009	25,480	42,806	2,000	7,842	78,128	18,727	96,855
Chair since September 23, 2009	2008	14,317	24,052	2,000	–	40,369	10,523	50,892
Dipl.-Ing. Albrecht Woeste ⁴⁾	2009	29,041	48,789	1,500	20,958	100,288	21,345	121,633
until September 22, 2009, Chair	2008	40,000	67,200	2,500	–	109,700	29,400	139,100
Winfried Zander ⁴⁾	2009	30,000	50,400	2,000	28,800	111,200	22,050	133,250
Vice-chair	2008	30,000	50,400	2,500	–	82,900	22,050	104,950
Dr. Friderike Bagel ⁴⁾	2009	5,973	10,034	500	8,503	25,010	4,390	29,400
(until April 20, 2009)	2008	20,000	33,600	2,500	–	56,100	14,700	70,800
Engelbert Bäßler	2009	–	–	–	–	–	–	–
(until April 14, 2008)	2008	5,683	9,548	500	–	15,731	4,177	19,908
Jutta Bernicke	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
(since April 14, 2008)	2008	14,317	24,052	1,500	–	39,869	10,523	50,392
Hans Dietrichs	2009	–	–	–	–	–	–	–
(until March 31, 2008)	2008	4,973	8,354	500	–	13,827	3,655	17,482
Fritz Franke	2009	20,000	33,600	1,500	–	55,100	14,700	69,800
(since April 14, 2008)	2008	14,317	24,052	2,000	–	40,369	10,523	50,892
Johann-Christoph Frey	2009	5,479	9,205	500	–	15,184	4,028	19,212
(since September 23, 2009)	2008	–	–	–	–	–	–	–
Birgit Helten-Kindlein ⁴⁾	2009	20,000	33,600	2,000	28,800	84,400	14,700	99,100
(since April 14, 2008)	2008	14,317	24,052	2,000	–	40,369	10,523	50,892
Bernd Hinz	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
	2008	20,000	33,600	2,500	–	56,100	14,700	70,800
Prof. Dr. Michael Kaschke	2009	20,000	33,600	1,500	–	55,100	14,700	69,800
(since April 14, 2008)	2008	14,317	24,052	1,500	–	39,869	10,523	50,392
Thomas Manchot	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
	2008	20,000	33,600	2,500	–	56,100	14,700	70,800
Prof. Dr. Dr. h.c. mult. Heribert Meffert	2009	–	–	–	–	–	–	–
(until April 14, 2008)	2008	5,683	9,548	500	–	15,731	4,177	19,908
Thierry Paternot	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
(since April 14, 2008)	2008	14,317	24,052	2,000	–	40,369	10,523	50,892
Andrea Pichottka	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
	2008	20,000	33,600	2,500	–	56,100	14,700	70,800
Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber	2009	–	–	–	–	–	–	–
(until April 14, 2008)	2008	5,683	9,548	500	–	15,731	4,177	19,908
Prof. Dr. Theo Siegert ⁴⁾	2009	14,027	23,566	1,500	20,297	59,390	10,310	69,700
(since April 20, 2009)	2008	–	–	–	–	–	–	–
Konstantin von Unger	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
	2008	20,000	33,600	2,000	–	55,600	14,700	70,300
Michael Vassiliadis ⁴⁾	2009	20,000	33,600	2,000	28,300	83,900	14,700	98,600
	2008	20,000	33,600	2,000	–	55,600	14,700	70,300
Dr. h.c. Bernhard Walter ⁴⁾	2009	20,000	33,600	1,500	55,600	110,700	14,700	125,400
	2008	20,000	33,600	2,500	–	56,100	14,700	70,800
Werner Wenning	2009	–	–	–	–	–	–	–
(until April 14, 2008)	2008	5,683	9,548	500	–	15,731	4,177	19,908
Ulf Wentzien	2009	20,000	33,600	2,000	–	55,600	14,700	70,300
(since April 14, 2008)	2008	14,317	24,052	2,000	–	40,369	10,523	50,892
Dr. Anneliese Wilsch-Irrgang	2009	–	–	–	–	–	–	–
(until April 14, 2008)	2008	5,683	9,548	500	–	15,731	4,177	19,908
Rolf Zimmermann	2009	–	–	–	–	–	–	–
(until April 14, 2008)	2008	5,683	9,548	500	–	15,731	4,177	19,908
Total	2009	350,000	588,000	30,500	199,100	1,167,600	257,250	1,424,850
	2008	349,290	586,806	38,000	–	974,096	256,728	1,230,824

¹⁾ Fee for service on the Audit Committee; there is no separate fee payable for service on the Nominations Committee

²⁾ 2009 LTI payout in 2012; these figures will only be attained in the event of EPS increasing by 21 percent in the performance period

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			Total cash emoluments	Value of long-term incentive ²⁾	Total remuneration ³⁾
		Fixed fee	Dividend bonus	Fee for subcommittee activity ¹⁾			
Dr. Simone Bagel-Trah, Chair	2009	82,123	55,187	167,200	304,510	53,544	358,054
Vice-chair until September 18, 2009 (Chair HR Subcom.)	2008	67,896	45,626	143,445	256,967	45,184	302,151
Dipl.-Ing. Albrecht Woeste ⁴⁾	2009	71,507	48,052	59,779	179,338	31,535	210,873
(until September 18, 2009), Chair (Member HR Subcom.)	2008	100,000	67,200	107,355	274,555	48,277	322,832
Dr. h.c. Christoph Henkel, Vice-chair	2009	75,000	50,400	167,200	292,600	51,450	344,050
(Chair Finance Subcom.)	2008	75,000	50,400	167,200	292,600	51,450	344,050
Dr. Paul Achleitner (Member Finance Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	50,000	33,600	83,600	167,200	29,400	196,600
Boris Canessa (since September 19, 2009) (Member HR Subcom.)	2009	14,247	9,574	23,821	47,642	8,377	56,019
	2008	–	–	–	–	–	–
Stefan Hamelmann (Vice-chair Finance Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	57,104	38,374	83,600	179,078	31,489	210,567
Dr. h.c. Ulrich Hartmann (Member Finance Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	50,000	33,600	83,600	167,200	29,400	196,600
Prof. Dr. Ulrich Lehner (since April 14, 2008) (Member Finance Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	35,792	24,052	59,845	119,689	21,046	140,735
Konstantin von Unger (Vice-chair HR Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	50,000	33,600	83,600	167,200	29,400	196,600
Karel Vuursteen (Member HR Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	50,000	33,600	83,600	167,200	29,400	196,600
Werner Wenning (since April 14, 2008) (Member HR Subcom.)	2009	50,000	33,600	83,600	167,200	29,400	196,600
	2008	35,792	24,052	59,845	119,689	21,046	140,735
Dr. Hans-Dietrich Winkhaus (until April 14, 2008) (Member Finance Subcom.)	2009	–	–	–	–	–	–
	2008	14,208	9,548	23,755	47,511	8,354	55,865
Total	2009	592,877	398,413	1,003,200	1,994,490	350,706	2,345,196
	2008	585,792	393,652	979,445	1,958,889	344,446	2,303,335

¹⁾ Proportional fixed fee and dividend bonus²⁾ Including LTI amount arising from subcommittee activity³⁾ 2009 LTI payout in 2012; these figures will only be attained in the event of EPS increasing by 21 percent in the performance period⁴⁾ Plus tax of 20k euros on income paid in kind

Operational activities

Overview

Henkel was founded in 1876. Consequently, the year under review marked the 133rd in our corporate history. Today, Henkel boasts a global workforce of some 50,000 employees, and day in, day out, people in more than 125 countries put their trust in our brands and technologies.

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. In this latter capacity, it is responsible for defining and pursuing Henkel's corporate objectives as well as 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.

Henkel is organized into three business sectors/strategic areas of competence:

- » 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 central functions of Henkel AG & Co. KGaA in order to ensure optimum utilization of corporate synergies. Implementation of the strategies at a country and regional level is the responsibility of the affiliated 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

Starting point

We will continue to focus on our three growth-generating strategic areas of competence Laundry & Home Care, Cosmetics/Toiletries and Adhesive Technologies. The recession of the year under review has especially highlighted the importance of a strong portfolio comprised of mutually complementary activities. Already today, we enjoy leading positions in all three segments in the mature markets, 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 develop and maintain strong and expandable market positions in the countries in which we have a presence. Already today, we generate 38 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 strategic areas of competence 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 2009

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 advantages 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 over the next few years to 45 percent while also improving our margins. We

also want to further increase our market shares in the mature markets.

2. Concentration 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 investment. Our three top brands Schwarzkopf, Loctite and Persil already account for around 25 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 rates¹⁾ of around 40 percent in the business sectors Laundry & Home Care and Cosmetics/Toiletries, and of around 20 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 the gross margin and makes a contribution to sustainable development in at least one of our five focal areas – see [AR page 56](#).

4. Operational excellence

In our purchasing activities, our aim is to create benefits for ourselves through the further development of our 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, for example by systematically utilizing standardized processes and our shared services, and by outsourcing non-core activities. We expect such measures to yield significant cost savings.

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

Focus more on our customers

In order to place our customers right at the center of everything 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 sustainability/corporate social responsibility (CSR). 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 asset. 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 116 nations working for Henkel; and the proportion of female managers is over 25 percent worldwide, with the trend clearly rising. The diversity of our global team constitutes a competitive advantage for Henkel, and one we wish to continuously extend.

Progress in fiscal 2009

Despite the challenging economic environment, we succeeded in making significant progress in fiscal 2009 with respect to our three strategic priorities. The salient advancements were as follows:

Achieve our full business potential

- » Record market shares in Europe posted by Laundry & Home Care and Cosmetics/Toiletries
- » Successful integration of the National Starch businesses and sale of certain US consumer adhesive brands of Adhesive Technologies
- » Sale of marginal brands and general reduction in the complexity of our brands portfolio
- » Increased efficiency at our production sites

Focus more on our customers

- » Establishment of customer contacts at the highest managerial level for the purpose of identifying joint projects
- » Introduction of a “Sustainability Check” for all new products to the benefit of our customers

Strengthen our global team

- » Introduction of Group-wide “Development Round Tables” at which the senior managers of an organizational unit meet once a year to discuss and evaluate the performance and potential of their managerial staff
- » Seminars for top talents at the Harvard Business School

Financial targets for 2012

We have set ourselves financial targets for 2012 which we intend to achieve by pursuing our strategic priorities.

Although we may have experienced a slight set-back in progressing toward these objectives due to the economic crisis of fiscal 2009, we remain confident of their achievement.

Financial targets for 2012

Annual organic sales growth (average):

3–5 percent

Adjusted¹⁾ return on sales (EBIT):

14 percent

Annual growth in adjusted¹⁾ earnings per preferred share (average):

> 10 percent

This self-belief is due not least to the many examples of progress made in the year under review with respect to our three strategic priorities as described above. These advancements were also reflected in the development of our financials in the course of 2009, with adjusted return on sales improving from 7.2 percent in the first quarter to 12.4 percent in the fourth quarter.

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

Value-based management and control system

To make achievement of our growth targets measurable, we have adopted a modern system of metrics with which we calculate value-added and return ratios in line with capital market practice.

We use economic value added (EVA[®])¹⁾ to assess growth to date and to appraise future plans. EVA[®] is a measure of the additional financial value created by a company in a given reporting 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 employed 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 123](#).

The cost of capital employed is calculated as a weighted average of the cost of capital (WACC) comprising both equity and debt. In fiscal 2009, we applied a WACC after tax of 8.0 percent. Before tax, the figure was 11.5 percent. We regularly review our cost of capital in order to reflect changing market conditions. Starting fiscal 2010, therefore, we have adopted a WACC of 10.0 percent before tax and 7.0 percent after tax.

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 2009, this resulted in a WACC before tax of 10.5 percent (7.5 percent after tax) for both Laundry & Home Care and Cosmetics/Toiletries, and of 12.5 percent before tax (8.5 percent after tax) for Adhesive Technologies. In 2010 we are applying a WACC of 10.0 percent before tax (7.0 percent after tax) for the business sectors Laundry & Home Care and Cosmetics/Toiletries, and 11.5 percent before tax (8.0 percent after tax) for Adhesive Technologies.

Weighted average cost of capital (WACC)

	2009	from 2010
Risk-free interest rate	4.8 %	4.3 %
Market risk premium	4.5 %	4.5 %
Beta factor	1.00	0.80
Cost of equity after tax	9.4 %	8.0 %
Cost of debt capital before tax	5.3 %	5.0 %
Tax shield (30%)	-1.6 %	-1.5 %
Cost of debt capital after tax	3.7 %	3.5 %
Share of equity ¹⁾ (target structure)	75 %	75 %
Share of debt capital ¹⁾ (target structure)	25 %	25 %
WACC after tax ²⁾	8.0 %	7.0 %
Tax rate	30 %	30 %
WACC before tax ²⁾	11.5 %	10.0 %

¹⁾ At market values

²⁾ Rounded

WACC before tax by business sector

	2009	from 2010
Laundry & Home Care	10.5 %	10.0 %
Cosmetics/Toiletries	10.5 %	10.0 %
Adhesive Technologies	12.5 %	11.5 %

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:

$$\text{EVA}^{\circledR} = \text{EBIT}^{2)} - (\text{Capital Employed} \times \text{WACC}).$$

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

$$\text{ROCE} = \text{EBIT}^{2)} / \text{Capital Employed}.$$

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

In fiscal 2009, the Henkel Group generated a negative economic value added (EVA[®]) of -201 million euros. This represents an improvement of 265 million euros compared to the previous year. The business sectors Laundry & Home Care and Cosmetics/Toiletries each generated a positive EVA[®]. At 164 million euros, the contribution made by Cosmetics/Toiletries was some 10 percent above the prior-year level; and with 232 million euros, Laundry & Home Care was able to significantly outstrip the figure of 166 million

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

²⁾ Before goodwill impairment

euros for the previous year, thanks to its strong operating profit. By contrast, the EVA® of Adhesive Technologies came in at –543 million euros. This is primarily due to the operating profit decrease emanating from the economic crisis; however, this figure also reflects substantial one-time and restructuring charges. We achieved a significant improvement in the Corporate segment with –77 million euros compared to –692 million euros for the previous year. This substantial increase resulted from the absence of the burden on operating profit from the previous year arising from the restructuring charges pertaining to the “Global Excellence” program and the integration of the National Starch businesses.

ROCE increased from 6.9 percent to 9.8 percent. This is again essentially due to the upturn in operating profit emanating from the absence of the high restructuring charges from the previous year.

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 product 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 facili-

ties 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.

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 example of a material change in the statutory environment 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.

EVA® and ROCE¹⁾

in million euros

	Laundry & Home Care	Cosmetics/ Toiletries	Adhesive Technologies	Corporate	Henkel
EBIT	501	387	336 ⁵⁾	–98	1,126 ⁵⁾
Capital employed	2,562	2,125	7,035	–181	11,541
WACC²⁾	269	223	879	–21	1,327³⁾
EVA® 2009	232	164	–543	–77	–201³⁾
EVA® 2008	166	150	–132	–692	–466 ⁴⁾
ROCE 2009	19.6 %	18.2 %	4.8 %	–	9.8 %
ROCE 2008	16.9 %	17.5 %	10.0 %	–	6.9 %

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 the WACC rate of 11.5 percent for the Henkel Group

⁴⁾ Calculated on the basis of the WACC rate of 11.0 percent for the Henkel Group

⁵⁾ EBIT plus 46 million euros in goodwill impairment losses

Business performance

World economy

Overview

The world economy was hit in 2009 by the heaviest recession of the post-war period. According to current estimates, economic activity measured on the basis of gross domestic product worldwide fell by around 2 percent. The extent of the crisis can be explained by a coincidence of numerous negative factors which, to some extent, also resulted in a degree of mutual reinforcement: the financial and real estate market crisis, the general crisis in confidence among corporates and consumers, the slump in world trade and the significant decline in industrial demand and production.

Developments in 2009

Nevertheless, the patterns exhibited in the individual quarters differed quite considerably. The year began with a sharp decline, followed in many regions by a still relatively weak second quarter. In the following quarters, there was a degree of recovery. Compared to the respective prior-year quarters, however, the decrease in gross domestic product continued, albeit at a slower pace.

Industry and consumption

The industrial sectors were considerably more heavily impacted by the recession than private consumption. In most regions, industrial production contracted substantially. Some sectors, particularly export-dependent capital goods industries, underwent double-digit declines compared to the previous year. Nevertheless, a relatively stable level of private consumption served to ease the decline in total economic output in many countries, including Germany.

Regions

The crisis was substantially more noticeable in the developed regions of North America and Western Europe than in the growth regions. Asia (excluding Japan) proved to be the most robust region. Eastern Europe was heavily hit, while Latin America – with the exception of Mexico – managed the crisis relatively well. The effects of the crisis were likewise noticeable in Africa and the Middle East. Instead of the strong growth of the previous years, we saw gross domestic product in these regions only slightly increase.

The growth countries – with exceptions such as Mexico and Russia – began to stabilize earlier than the mature markets, with Asia, and particularly China, leading the way.

Raw material prices

The cost of raw materials such as crude oil, ethylene, propylene, palm kernel oil, metals and paper increased significantly with the first signs of stabilization and then recovery of the world economy as of the beginning of the second quarter. This is particularly evident in the price of crude oil which rose from 45 US dollars per barrel in the first quarter to 79 US dollars per barrel in the fourth quarter. However, average raw material prices remained below the level of the previous year.

Currencies

In the first quarter of 2009, the foreign exchange markets very much reflected the repercussions of the financial crisis. While the US dollar was regarded as a safe haven and appreciated substantially, the currencies of the growth regions in particular lost value. As 2009 developed, the dollar experienced a steady decline versus the euro. And while the Eastern European currencies of particular importance for Henkel recovered from their March low points, the exchange rates remained below the average levels prevailing in 2008.

Inflation

There were noticeable reductions in inflation rates worldwide. Many countries in the developed regions registered stable or even falling prices.

Unemployment

Unemployment increased with the recession but generally remained lower than had been expected in view of the depth of the economic crisis.

Private consumption and developments by sector

While the consumer climate clouded in 2009 compared to the longer view, consumers only restricted their spend to a small extent worldwide. This at least cushioned the effects of the crisis. In the course of the year, the consumer climate began to brighten again with the gradual end to the general crisis of confidence.

In the developed regions, consumption fell slightly compared to 2008. In the growth regions, average consumption stagnated. Developments in Eastern Europe were substantially less favorable, with consumers significantly limiting their expenditure following several boom years.

The retail trade performed poorly in 2009, although the decline in activity was minor compared to that suffered by the industrial sector.

Fiscal 2009 was a year characterized by a major industrial downturn that exceeded the decline in total economic output. Around the world, industrial production fell by almost a tenth. And many sectors such as the transport industry had to cope with production decreases in the high teens.

All the developed countries were affected by the heavy industrial decline. Among the growth regions, Latin America – with the exception of Mexico – was able to keep the minus rates within limits. Developments in Asia were mixed: while Japan's industrial production declined by more than a fifth, China was able in the crisis year of 2009 to almost repeat the double-digit plus rates of previous years.


The region of Eastern Europe was more heavily hit by the crisis. In most countries here, the decline in output in the manufacturing industries was in the double-digit percentage range.

The automotive industry began 2009 with substantial falls in production and demand. It suffered from a reluctance both among private households to buy and among companies to invest. In the course of the year came a degree of recovery from a low base, due primarily to state stimulus measures such as the "scrappage premium" in Germany. Compared to the previous year, the contraction in production was considerable.

The electronics industry also belonged to the sectors particularly hard hit by the crisis. Here too there was a degree of recovery during the second half of the year. Equivalent in its magnitude was the crisis in the metals industry. Only toward the end of the year did this sector see a gradual revival in activity. A more substantial decline in production was avoided in the packaging industry thanks to the consumer-related food and semi-luxuries segment remaining relatively robust.

The crisis in the building industry accelerated in 2009 with home-building being especially impacted. Most regions, headed by the USA, recorded significant declines in building output. In Eastern Europe too, building volumes

decreased appreciably. Only China and India were able to achieve expansion in 2009.

Further details on developments with respect to specific segments and regions can be found in the individual business sector reports starting on  page 58.

Management Board review of business performance

Henkel's business performance was characterized by the above-described significant deterioration in the underlying economic conditions compared to fiscal 2008. With the slump in market growth at the beginning of the year, particularly in the segments served by the Adhesive Technologies business sector, the ensuing pattern was one of successive signs of recovery. Our organic sales growth in the second half of the year again experienced an improvement compared to the first six months. Organic sales development at the Henkel Group for the year as a whole underwent a decline of 3.5 percent.

The tense situation on the procurement markets that characterized the trading environment of 2008 dissipated in fiscal 2009. In the second and third quarters particularly, we experienced a significant boost to our gross margin as a result of declining raw material prices.

The process of stabilization in our markets toward the end of the year and successful savings arising from our structural and cost realignment programs were also reflected in the results achieved. We generated an adjusted¹⁾ operating profit of 1,364 million euros. The implementation of our "Global Excellence" program, introduced in order to strengthen the profitability and competitiveness of Henkel over the long term, turned in better results during the year under review than was originally planned, as did the integration of the National Starch businesses.

The Adhesive Technologies business sector aligned its activities more strictly to the needs of its customers, reorganizing its internal structures to this end.

A further major event in 2009 was the successful sale of our consumer adhesives brands Duck, Painter's Mate Green and Easy Liner in the USA and Canada. This divestment contributed to the further consolidation of our portfolio.

Thanks to strong cash flows from our operating activities, we were able to substantially reduce our net debt. The senior bond issued in March 2009 in the amount of 1.0 billion euros served to significantly strengthen the long-term financing of the Henkel Group.

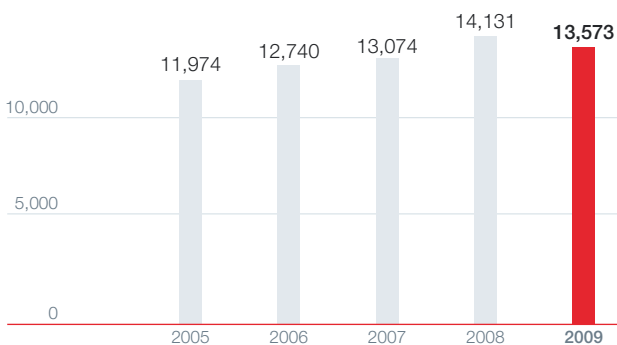
¹⁾ Adjusted for one-time charges/gains and restructuring charges

Sales and profits

Henkel Group sales in 2009 amounted to 13,573 million euros, a fall of 3.9 percent compared to prior year. After adjusting for foreign exchange, the decline in sales was 1.5 percent. Due to the difficult market environment in 2009, organic sales development (i.e. sales adjusted for foreign exchange and acquisitions/divestments) declined by 3.5 percent. Positive pricing was more than offset by volume decreases, particularly in the Adhesive Technologies business sector.

After a first quarter heavily impacted by the economic crisis, the subsequent quarters were characterized by a gradual recovery. With a decline of 1.0 percent overall, organic sales performance in the second half of the year was an improvement on developments during the first six months, which saw a 6.1 percent decrease.

Sales
in million euros



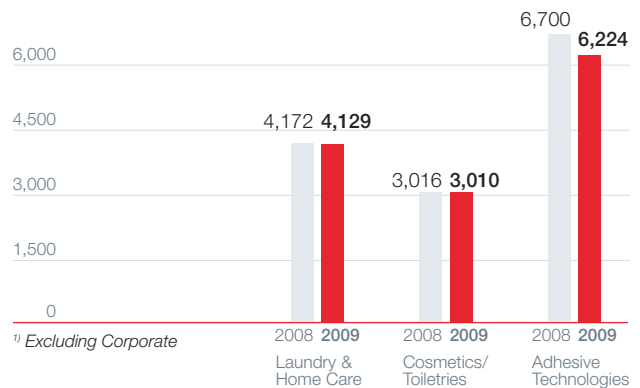
Sales development¹⁾
in percent

	2009
Change versus previous year	-3.9
Foreign exchange	-2.4
After adjusting for foreign exchange	-1.5
Acquisitions/Divestments	2.0
Organic	-3.5

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

The performance of our business sectors varied considerably: while the consumer businesses Laundry & Home Care and Cosmetics/Toiletries continued to perform well during fiscal 2009 with organic growth rates of 2.9 percent and 3.5 percent respectively, sales of the Adhesive Technologies business sector decreased organically by 10.2 percent due to the globally difficult situation being experienced by important customer industries.

Sales by business sector¹⁾
in million euros



¹⁾ Excluding Corporate

In the regional breakdown too, the worsening economic environment predominantly led to sales declines:

At 8,335 million euros, sales of the Europe/Africa/Middle East region decreased organically by 1.9 percent compared to prior year. While the consumer businesses achieved a gratifying increase in organic sales, Adhesive Technologies posted a decline in the double-digit percentage range. Sales in Western Europe decreased, while in Eastern Europe we achieved a single-digit increase in organic sales, and the Africa/Middle East subregion once again posted a double-digit growth rate. Overall, the share of sales of the region fell from 63 percent to 61 percent.

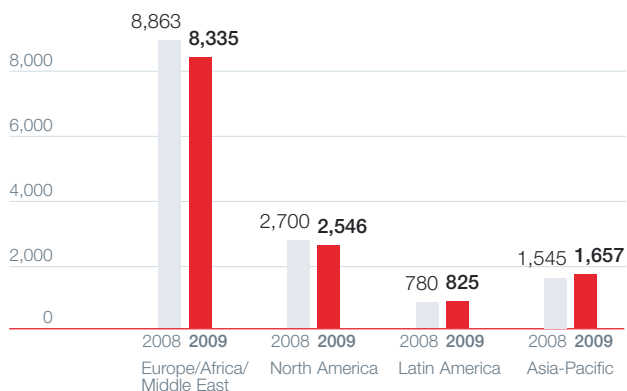
Sales in the North America region decreased organically by 8.6 percent to 2,546 million euros. All our business sectors suffered considerably from the underlying economic conditions, particularly during the first half of the year. The share of sales accounted for by the North America region remained constant at 19 percent.

The Latin America region continued to perform very encouragingly, posting an organic sales growth of 5.0 percent to 825 million euros, with all our business sectors contributing. The share of sales attributable to Latin America increased from 5 to 6 percent.

Like Europe and North America, the Asia-Pacific region felt the effects of the economic crisis, with sales declining organically by 5.8 percent. Reported sales amounted to 1,657 million euros. An increase in sales posted by Cosmetics/Toiletries was offset by a decline in Laundry & Home Care which resulted from the discontinuation of operations in China at the end of 2008. The organic sales performance of the Adhesive Technologies business sector likewise under-

went a downturn, although there was already a return to positive growth in the second half of the year. The share of sales accounted for by Asia-Pacific increased to 12 percent compared to 11 percent in the previous year.

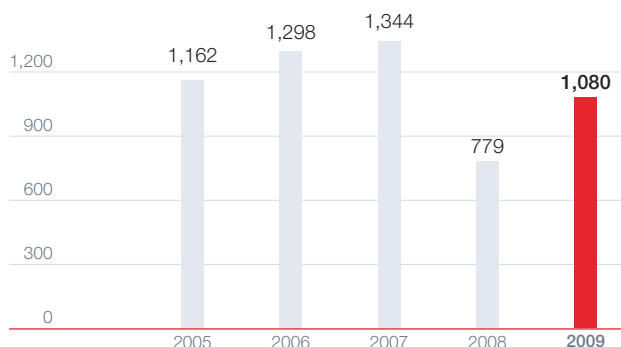
Sales by region¹⁾
in million euros



¹⁾ Excluding Corporate

Sales of our growth regions Eastern Europe, Africa/Middle East, Latin America and Asia (excluding Japan) fell by 1.0 percent to 5,114 million euros. Organic growth amounted to 3.7 percent, with continuous recovery in the course of the year following a weak start. The consumer businesses made a particularly important contribution to this improvement, registering growth rates close to the double-digit percentage mark, while developments at Adhesive Technologies remained slightly regressive. The share of sales of the growth regions increased from 37 to 38 percent.

EBIT
in million euros



The following is a discussion of our operating performance without one-time charges/gains and restructuring charges:

Adjusted EBIT

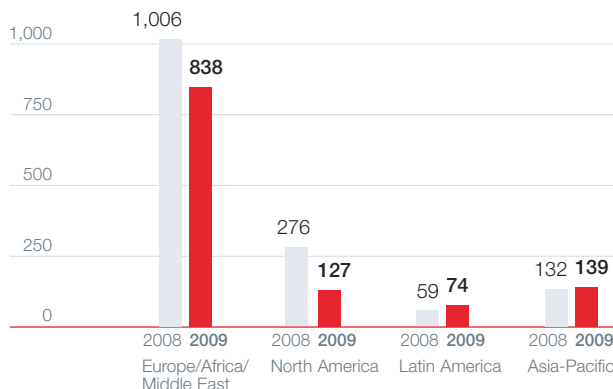
in million euros	2008	2009	%
EBIT (as reported)	779	1,080	38.6
One-time gains	-30	-9	
One-time charges	48	134	
Restructuring charges	663	159	
Adjusted EBIT	1,460	1,364	-6.6

At 1,364 million euros, adjusted operating profit (“adjusted EBIT”) fell below the prior-year figure of 1,460 million euros due to the decline suffered by the Adhesive Technologies business sector. However, we succeeded in avoiding a greater decrease thanks to the savings generated from our “Global Excellence” program and the integration of the National Starch businesses. Adjusted return on sales fell by 0.3 percentage points to 10.0 percent due to the margin decline at Adhesive Technologies from 10.1 percent to 8.1 percent. The consumer businesses Laundry & Home Care and Cosmetics/Toiletries were able to increase their adjusted return on sales figures to an encouraging 12.8 percent (previous year: 10.8 percent) and 12.9 percent (previous year: 12.6 percent) respectively.

The difficult market conditions also affected the profit performance of our regions:

In Europe/Africa/Middle East, operating profit decreased by 16.7 percent (-9.8 percent after adjusting for foreign exchange). While the consumer businesses saw their currency-adjusted EBIT rise, there was a significant decline at Adhesive Technologies. At 10.1 percent, the region’s return on sales was below the prior-year level of 11.4 percent.

EBIT by region¹⁾
in million euros




¹⁾ Excluding Corporate. Effective 2009, we assign the centrally incurred cost of our regional business management activities to the individual regions; the figures for 2008 have been adjusted accordingly

In North America, operating profit fell by 54.1 percent (–56.2 percent after adjusting for foreign exchange). Due to the difficult market environment, there was a substantial decrease in profits at Adhesive Technologies, while the consumer businesses Laundry & Home Care and Cosmetics/Toiletries suffered only a slight decline. The return on sales decreased correspondingly, from 10.2 percent to 5.0 percent.

Operating profit in the Latin America region improved by 25.1 percent. After adjusting for foreign exchange, profits rose by 37.1 percent, with the encouraging results of Laundry & Home Care and Adhesive Technologies making a major contribution. Return on sales increased by 1.4 percentage points to 9.0 percent.

The operating profit of the Asia-Pacific region rose by 5.6 percent (–0.9 percent after adjusting for foreign exchange). This is primarily due to the discontinuation of the detergents business in China. The region's return on sales decreased slightly from 8.5 percent to 8.4 percent.

Further details relating to our business performance can also be found in the reports dealing with the individual business sectors starting on  page 58.

“Global Excellence” restructuring program

In February 2008, Henkel announced the main framework of a worldwide efficiency enhancement program under the heading “Global Excellence.” This initiative had become necessary due to changing market conditions, an increasingly tough competitive environment and rising cost pressures.

“Global Excellence” encompasses a wide range of individual measures in all our business sectors, regions and functions around the world. In view of the economic crisis of 2009, we accelerated the implementation of the program so that, utilizing the entire volume of provisions made in 2008 in the amount of 504 million euros, we were able to successfully complete “Global Excellence” before the end of 2009.

While the original plan was to generate annual savings of around 150 million euros from 2011, we now expect – as a result of said accelerated implementation of the program – to achieve this figure and possibly exceed it from 2010.

We introduced “Global Excellence” in order to strengthen the long-term profitability and competitiveness of Henkel. This initiative has enabled us to respond to changes in our markets, improve our production network and expand our

shared services. The early implementation of the efficiency enhancement measures resulted in benefits already accruing in 2009, despite the difficult market environment.

One major aspect of the “Global Excellence” program has been the consolidation of our liquid detergents manufacturing operation in Europe, initiated in 2008. However, we avoided closure of the production facility in Genthin, selling it instead to a third party with the majority of jobs there being retained. Liquid detergent production has now been transferred to Düsseldorf.

National Starch:

Integration of operational activities

Through the integration of the National Starch businesses, we have been able to significantly improve Henkel's product and service portfolio for both existing and potential customers in the global adhesives market. The integration of customer relationships, our extended know-how in research and development and a combination of the capabilities of our two internationally successful organizations have created an excellent basis for sustainable, profitable growth.

We accelerated the process of integrating the acquired businesses in 2009. For 2011, we expect at least to achieve the planned total synergies of 250 million euros.

Production consolidation, information technology and revenue synergies constituted the focal areas of the 2009 integration program. By combining the product portfolios, we have been able to expand our business with existing and new customers, leveraging the potential available around the world in the form of specific customer-related projects. We have also succeeded in completing a number of major production relocation projects. The implementation of the measures still remaining is either running according to schedule or has been expedited. Since the middle of 2009, the IT systems of Henkel and those of the seller have been operating independently. The rapid merger of the two organizations has facilitated simplification and acceleration of the internal processes within the new organization. Looking to the future, we intend to continue our systematic approach in pursuing all synergy projects aligned to increasing sales and profits.

Our integration work and focus in 2010 will be aligned to further production relocations and revenue synergies. The projects are due for completion in 2011, marking a

further milestone as we consolidate our position as a world leader in adhesives.

Expense items

The cost of sales for the year under review decreased by 9.5 percent, coming in at 7,411 million euros. Gross profit increased to 6,162 million euros, which meant gross margin improved by 3.4 percentage points to 45.4 percent. It was positively influenced by, in particular, the fall in raw material prices, while a reduction in capacity utilization in the Adhesive Technologies business sector compared to the prior year had a burdening effect. Restructuring charges arising from the efficiency enhancement measures and the integration of the National Starch businesses were incurred in both the year under review and in the previous year, and these need to be taken into account in any comparison. The allocation of the restructuring charges between the various items of the income statement is explained on [AR page 80](#). After adjusting for restructuring charges, gross margin amounted to 45.9 percent, 1.2 percentage points above the adjusted prior-year figure.

The expense items discussed in the following were also affected by the restructuring charges. It should also be noted that the National Starch businesses acquired in the previous year were not consolidated until April 2008.

At 3,926 million euros, marketing, selling and distribution expenses fell by 1.7 percent below the figure for the previous year. After adjusting for restructuring charges, this item remained roughly at the prior-year level.

Our research and development expenses totaled 396 million euros, with the R&D ratio (i.e. research and development expenses expressed as a proportion of sales) falling 0.1 percentage points below the prior-year figure of 3.0 percent. After allowing for restructuring charges, the adjusted R&D ratio rose compared to prior year by 0.1 percentage points.

Administrative expenses decreased by 10.9 percent to 735 million euros. After adjusting for allocated restructuring charges, administrative expenses increased slightly by 1.9 percentage points.

Other operating income and charges

The balance of other operating income and charges fell by 110 million euros. Income from the reversal of operating provisions decreased compared to the previous year by 6 million euros. Moreover, the income figure for the previous year included gains from the sale of our water treatment business amounting to 8 million euros. Reflected in the rise in other operating charges are valuation adjustments with respect to individual activities in the Adhesive Technologies business sector. Planned closures or divestments of product lines led to goodwill impairment losses of 46 million euros.

Financial result

The financial result for 2008 reflects a gain of 1,042 million euros arising from the sale of our participating interest in Ecolab Inc. Overall, the 2009 financial result decreased significantly due to this one-time effect to -195 million euros. Net interest improved by 84 million euros to -191 million euros. Due to the rise in cash flow and the lack of major acquisitions, we were able to substantially reduce our net debt. Together with the lower interest rate levels prevailing, this made a significant contribution to the improvement in our net interest result.

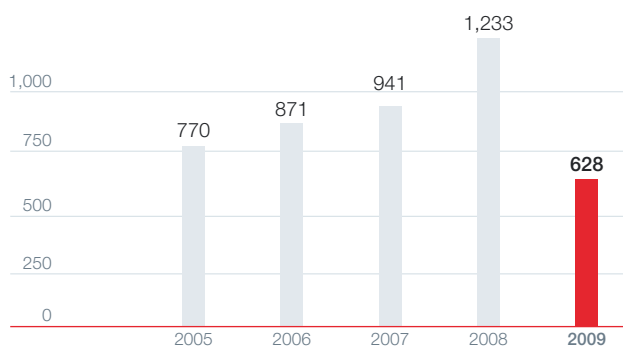
Net earnings

Earnings before tax decreased by 45.6 percent to 885 million euros due to the gain recognized in the previous year from the sale of our Ecolab stake. Taxes on income amounted to 257 million euros. The tax rate was 29.0 percent. The lower tax rate of 24.2 percent that applied in the previous year was due in part to the lower rate payable on the at-equity income from our Ecolab investment, and to the subsequent sale of said investment.

Net earnings for the year decreased by 605 million euros to 628 million euros. After deducting minority interests of 26 million euros, net earnings totaled 602 million euros. Adjusted net earnings after minority interests, i.e. the figure after allowing for one-time charges/gains and restructuring charges, declined by 123 million euros to 822 million euros.

The annual financial statements of the parent company of Henkel AG & Co. KGaA are summarized on [AR page 131](#).

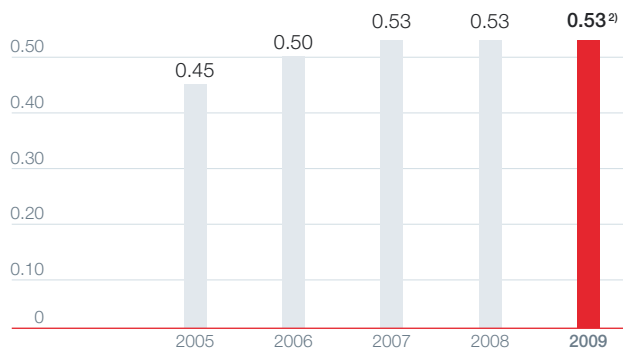
Net earnings in million euros



Dividends and distribution policy

The level of dividend distribution is primarily aligned to earnings after deducting minority interests and exceptional items. The payout ratio should be around 25 percent. We intend to propose to the Annual General Meeting that the dividends payable on both classes of share remain unchanged. This will yield payouts of 0.53 euros per preferred share and 0.51 euros per ordinary share, giving a payout ratio of 27.6 percent.

Preferred share dividends¹⁾ in euros



¹⁾ Basis: share split (1:3) of June 18, 2007

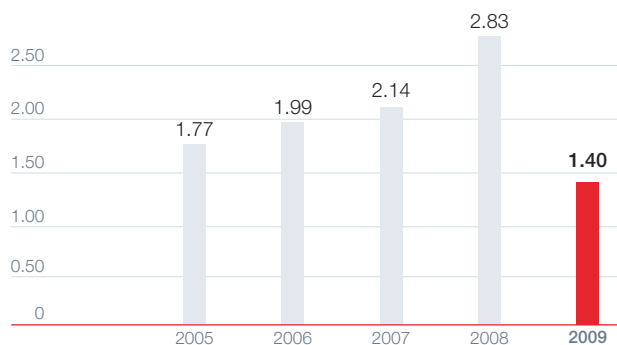
²⁾ Proposal

Earnings per share (EPS)

Basic earnings per share are calculated by dividing earnings after minority interests by the weighted average number of shares outstanding during the reporting period. Earnings per preferred share decreased from 2.83 euros to 1.40 euros and earnings per ordinary share fell from 2.81 euros to 1.38 euros. Adjusted earnings per preferred share amounted to 1.91 euros (previous year: 2.19 euros).

The Stock Incentive Plan introduced in 2000 resulted in no dilution of earnings per ordinary or preferred share as of December 31, 2009.

Earnings per preferred share¹⁾ in euros



¹⁾ Basis: share split (1:3) of June 18, 2007

Assets and financial analysis

Acquisitions and divestments

The **Laundry & Home Care** business sector acquired the remaining minority shares in a Tunisian joint venture for a total of around 8 million euros.

As part of its ongoing portfolio streamlining operation, the **Cosmetics/Toiletries** business sector disposed of a number of minor brands in the USA.

The **Adhesive Technologies** business sector increased its shareholding in joint venture companies in Turkey and China, expending a total of around 19 million euros. Its major disposal in the year under review was of the North American consumer adhesives business operated under the Duck brand. The proceeds of the sale amounted to around 87 million euros.

Capital expenditures

Capital expenditures (excluding financial assets) amounted to 415 million euros in the year under review. Investments in property, plant and equipment for our continuing operations totaled 344 million euros, 129 million euros below the level of the previous year. A major portion of these fixed asset investments relates to the integration of the production and IT facilities of the acquired National Starch sites (Adhesive Technologies). A further portion of the expenditure went on establishing and expanding production capacities and on

structural improvements such as the merger of our administrative and production sites. Among the major individual projects of 2009 were the following:

- » Expansion of capacity for construction-related products in Eastern Europe (Ukraine and Russia; Adhesive Technologies).
- » Completion of the new production and administrative site in South Korea (Adhesive Technologies).
- » Consolidation and concentration of our liquid detergent manufacturing operation in Western Europe. In Germany, relocation of production from Genthin to Düsseldorf, and in Spain from Malgrat to Montornès (Laundry & Home Care).
- » Launch of the new detergent generation Purex Complete 3-in-1 in the USA (Laundry & Home Care).
- » New production plant for the manufacture of bar and liquid soaps in West Hazleton, Pennsylvania, USA (Cosmetics/Toiletries).
- » Commissioning of a new factory for liquid detergents in Toluca, Mexico (Laundry & Home Care).
- » Completion of the new main administrative center in Greece (Cosmetics/Toiletries, Adhesive Technologies).

Capital expenditures 2009

in million euros	Continuing operations	Acquisitions	Total
Intangible assets	28	40	68
Property, plant and equipment	344	3	347
Total	372	43	415

In regional terms, the emphasis of our capital expenditures in 2009 lay in North America and Europe.

Net assets

At 15.8 billion euros, the balance sheet total in 2009 was slightly below that of the previous year. On the assets side, a decline in intangible assets resulted from currency translation effects based on a lower US dollar exchange rate, and the remeasurement of individual assets attributable to the Adhesive Technologies business sector. Within the also slightly lower property, plant and equipment total are included capital expenditures in continuing operations of

344 million euros, offset by depreciation of 377 million euros and disposals with a book value of 63 million euros. Other financial assets rose compared to the end of 2008 due primarily to the positive fair values of interest rate derivatives transacted in order to hedge our long-term borrowings.

Under current assets, there was a substantial decrease of 390 million euros in the combined totals of inventories and trade accounts receivable, supported by our continuing strict management of net working capital. Other current financial assets fell by a total of 361 million euros, due primarily to the cash pool settlement by the seller in respect of the acquired National Starch businesses, and a decrease in the fair values of financial derivatives. Conversely, liquid funds increased by a substantial 772 million euros to 1,110 million euros as a result of the strong cash flows generated by our operating activities. Due to continuing uncertainties in the financial markets, our focus in the year under review was again on securing our liquidity. Assets held for sale decreased substantially following the disposal of certain consumer adhesive brands in the USA and Canada.

At 6,544 million euros, shareholders' equity including minority interests remained roughly at the prior-year level. The changes are shown in detail in the statement of changes in equity on [AR page 83](#). The equity ratio increased compared to the previous year by 1.1 percentage points to 41.4 percent.

Non-current liabilities rose overall by 914 million euros. The increase is primarily due to the senior bond for 1.0 billion euros issued in March 2009. The funds generated were used to repay short-term borrowings and to increase our liquid funds.

Under current liabilities, there was a decrease in tax provisions from 343 million euros to 224 million euros. This is predominantly due to tax payments arising from the sale of our Ecolab stake in November 2008. Short-term borrowings decreased substantially from around 1.8 billion euros to 0.7 billion euros as a result of the financing measures indicated above and also repayment of the remaining balance of the bridge loan facility used to acquire the National Starch businesses. There was a countervailing rise of 207 million euros in trade accounts payable as a further component of our net working capital.

We considerably reduced net debt in the course of the financial year, finishing at 2,799 million euros, a decrease of 993 million euros compared to the level of the previous year. We define net debt as borrowings less liquid funds and – commencing with the 2009 financial year – 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.

Financing

The finances of the Group are, to a large extent, 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. 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. The cash flows not required for capital expenditures, dividends and interest payments are used to reduce our net debt. We cover our short-term financing requirement primarily with commercial papers and bank loans. Our bonds outstanding serve to cover our long-term financing requirements.

Our creditworthiness is regularly checked by independent rating agencies. Both Standard & Poor’s and Moody’s currently categorize Henkel in the best possible category, the Investment Grade Segment, with “A-/A-2” (S&P) and

“A3/P2” (Moody’s). The ratings are thus one notch lower than at the end of 2008.

Credit ratings

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

At December 31, 2009

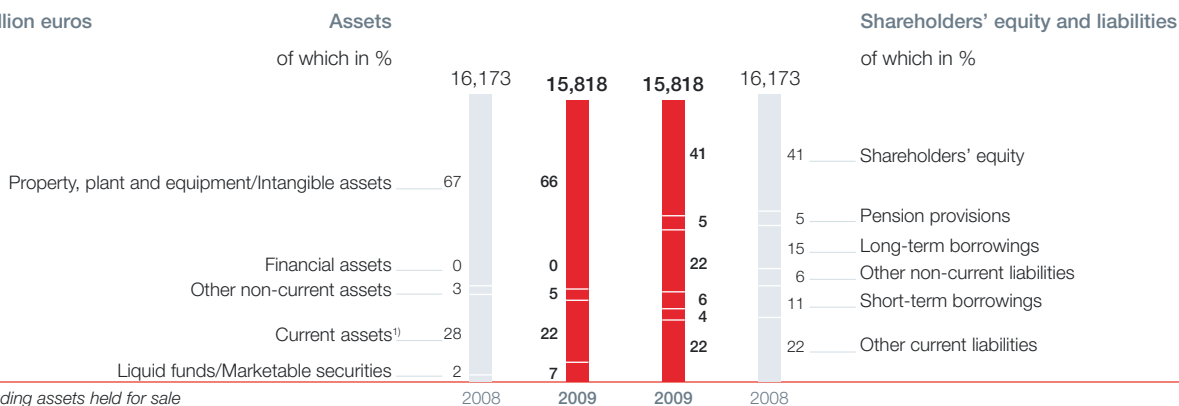
Our financial strategy is aligned to the single-A rating category as a means of maintaining our financial flexibility. We are endeavoring to upgrade our long-term credit rating by one notch to A (Standard & Poor’s) and A2 (Moody’s). Cash flows from operating activities and from divestments are used to reduce our net debt exposure.

Essentially, we pursue a conservative borrowing policy, again aligned to flexibility, within a balanced financial portfolio. This is based on a core platform of syndicated credit facilities and a multi-currency commercial paper program.

At December 31, 2009, our long-term borrowings amounted to 3.4 billion 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 short-term borrowings – i.e. those with maturities of less than 12 months – amounted to 0.7 billion euros as of the balance sheet date. These essentially comprise interest-bearing loans and overdrafts from banks.

Balance sheet structure
in million euros



¹⁾ Including assets held for sale

We have used the inflowing funds arising from the increase in long-term borrowings in order to repay short-term borrowings and to increase our liquid funds.

The hybrid bond is treated by Moody's as 75 percent equity and by Standard & Poor's as 50 percent equity. This reduces the rating-specific borrowing ratios of the Group (see adjacent key financial ratios table).

For further information on our financial stewardship and our financial instruments, please refer to Notes 41 and 42 to the consolidated financial statements on **AR** pages 112 to 118.

Financial position

Cash flow from operating activities in 2009 amounted to 1,919 million euros, an increase of 754 million euros above the level of the previous year. Income tax payments decreased due to a fall in advance tax payments. Positive developments in net working capital, primarily during the second half of 2009 with improvements in inventories, trade accounts receivable and trade accounts payable, made a significant contribution to the substantial increase in cash inflow. With regard to other liabilities and provisions, the main burden derived from payments in respect of restructuring measures.

Cash flow from investing activities/acquisitions was influenced by a reduction in capital expenditures on property, plant and equipment compared to the previous year. Further, the previous year had been characterized by high cash outflows arising from the acquisition of the National Starch businesses on the one hand, and proceeds from the sale of our Ecolab stake on the other. The cash pool settlement relating to the acquisition of the National Starch business resulted in a cash inflow of 103 million euros in the year under review.

Our **cash flow from financing activities** shows lower and thus less burdensome outflows in the form of interest payments, together with payments to reduce short-term borrowings and higher pension fund contributions.

Liquid funds/marketable securities increased as a result of the higher cash flow from operating activities, by 772 million euros to 1,110 million euros.

At 1,462 million euros, **free cash flow** is 1,005 million euros above the comparable prior-year level, having increased primarily due to the strong inflow of cash from the management of our net working capital, reduced investments in property, plant and equipment, and lower interest payments.

Key financial ratios

The interest coverage ratio, i.e. EBITDA divided by our net interest expense, improved due to the twin effects of lower interest outgoings and higher earnings before interest, tax, depreciation and amortization. In the previous year, this metric was burdened by charges arising from the efficiency enhancement and integration measures and also – following the acquisition of the National Starch businesses – an increase in our interest expense.

The significant reduction in our net debt in 2009 has had a beneficial effect on the debt coverage ratio. In the previous year, this metric was additionally boosted by the gain from the sale of our Ecolab stake. The slightly higher equity ratio is a reflection of the strengthening of our financing structure in the year under review.

Key financial ratios

	2008 ²⁾	2009
Interest coverage ratio (EBITDA/Net interest expense including interest element of pension provisions)	4.8	8.7
Debt coverage ratio (Net earnings + Amortization and depreciation + Interest element of pension provisions/Net borrowings and pension provisions) ¹⁾	45.1 %	41.8 %
Equity ratio (Equity/Total assets)	40.3 %	41.4 %

¹⁾ Hybrid bond included on 50 percent equity basis

²⁾ Prior-year figures adjusted on the basis of the new definition of net borrowings

Employees

The number of people employed by Henkel at the end of the reporting period was 49,262. In the course of the year, headcount decreased by 5,880. Per capita sales increased further to 264,300 euros. Henkel Group payroll costs decreased by 54 million euros to 2,382 million euros. The decrease in the number of employees is due both to the "Global Excellence" program and the synergies arising from the integration of the National Starch businesses, with economic developments also exerting an influence. We responded to the latter with specific countermeasures, for example with a highly selective hiring policy and organizational adjustments. The reductions in personnel in 2009 affected all our regions and hierarchical levels; and as ever, they were implemented in a socially responsible manner.

With the "Global Excellence" program introduced at the beginning of 2008, Henkel responded very quickly to the advent of economic change. The resultant efficiency enhancements and process optimizations already began to take effect

Employees

(at December 31 ¹⁾)	2005	%	2006	%	2007	%	2008	%	2009	%
Europe/Africa/Middle East	33,267	63.8	33,326	64.3	33,687	64.0	33,485	60.7	30,933	62.8
North America	7,271	14.0	6,651	12.8	6,438	12.2	7,360	13.4	5,714	11.6
Latin America	4,208	8.1	4,297	8.3	4,268	8.1	4,293	7.8	4,002	8.1
Asia-Pacific	7,355	14.1	7,545	14.6	8,235	15.7	10,004	18.1	8,613	17.5
Total	52,101	100.0	51,819	100.0	52,628	100.0	55,142	100.0	49,262	100.0

¹⁾ Prior-year figures adjusted; base: permanent employees excluding apprentices

in 2009. Regarding the integration of the National Starch businesses, the main activities in 2009 involved the formation of a uniform and high-caliber organization exhibiting a strong customer focus. All the employees incorporated as a result of the acquisition have now been completely integrated within our corporation and our compensation, performance appraisal and personnel development systems.

In order to attract the best young talents, we maintain a program of close collaboration with universities and faculty chairs. Our offerings in the form of workshops, case studies and lectures are readily received and have resulted in ever more applications from graduates with outstanding qualifications. 2009 also saw the third of our innovation competitions for students – the “Henkel Innovation Challenge” – successfully launched in twelve European countries. This enabled us to gain extensive online and print media coverage, positioning Henkel as an “employer of choice” within the international environment.

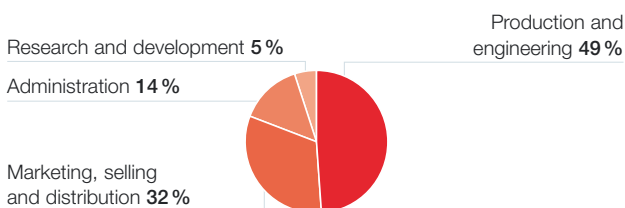
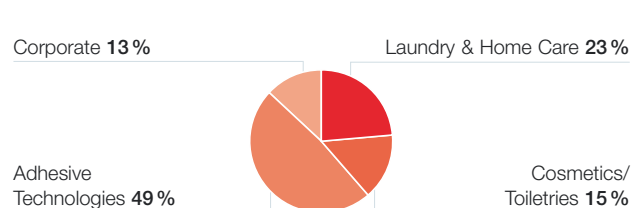
A review of our hiring process, which has now been extensively transferred to an online platform, led to more internal efficiency and a more convenient application process for candidates.

In Germany, Henkel offers apprenticeships and initial qualifications at ten locations covering more than 20 professions. In all, we engaged 167 apprentices at Henkel’s German sites in 2009. The number of applications rose considerably compared to the previous year, indicating the level of attractiveness assigned to an apprenticeship and similar training opportunities at Henkel. We extended our range of offerings

in this respect through the inclusion of dual studies as of the start of the 2009 academic year. Here, students are able to combine a course leading to a diploma granted by the Chamber of Trade and Industry, with a bachelor degree at a university, allowing them to obtain academic qualifications combined with practical professional training.

One of the most important tasks undertaken by our managers is that of developing our employees. Again in 2009, we focused specifically on the identification of high potentials and ensuring their effective development. The “Talent Management Process” introduced for senior management candidates in 2008 was extended in the year under review to cover all managerial levels worldwide. This involves groups of managers attending so-called “Development Round Tables” chaired by their own line manager to discuss the performance and potential of their employees on the basis of global standards, and to decide on appropriate further development measures. The managers pass on to their employees the results of this evaluation in feedback meetings, and together the two parties prepare individual development plans which are then implemented on a joint responsibility basis. An international training initiative was carried out in order to prepare managers for these feedback meetings.

2009 saw us significantly improve our performance-related compensation structure – i.e. the linkage between personal contribution and individual remuneration. We intend to take this process forward in 2010 by providing regular feedback on employee performance and target achievement,

Employees by function**Employees by business sector**



Since 2005, an international team has been working on a Henkel-wide personnel data system. Today it already provides the basis for standardized procedures in HR management. Each year, between 15 and 20 projects have had to be managed concurrently on a worldwide basis. Whether in airports, the office, in a hotel or in a taxi, telephone conferences across various time zones with local colleagues throughout the world were a permanent feature of the everyday work of this young team from HR management and information technology.

From the left:

Andreas Bender
Project Manager –
Europe and
North America

Martha Pereiras
Change Manager and
Project Manager

Tianshu Deng
Project Manager –
Europe/Africa/
Middle East

Fabrice di Fiore
Program Manager –
Information Technology

Ina Schreckenberger
Program Manager –
HR Management

Jörg Heinen
Program Manager –
Information Technology

and by further developing the monetary reward systems in place, taking into account aspects of differentiation and competitiveness.

The development of our global team is a strategic priority of Henkel and is therefore regarded as an important management duty. Consequently, not only technical expertise but also managerial competence are significant aspects in the selection process applied to our managers. These undergo regular training using our “Henkel Global Academy” resource with value-adding courses provided in collaboration with international business schools. In 2009, we reviewed the curriculum and now offer high-quality training events covering general management requirements, together with specific managerial and technical expertise. In developing our managerial staff, we also make use of international assessment centers that match the current competence profile of the manager with future requirements, defining specific measures for the further advancement of the personnel concerned. As in the past, we endeavor to develop and promote managerial talent primarily from within. With a strict selection process, we ensure that every candidate appointed to a post satisfies our high quality criteria.

In 2009, the Management Board introduced a global directive on Diversity & Inclusion, providing us with a uniform definition of both terms and a number of associated implementation priorities. An international team of diversity ambassadors was also formed within the company. Their task is to instigate and implement local projects and initiatives on this theme. In 2009, activities included a Diversity Day in the USA and a cross-generation mentoring program in Belgium. Our subsidiaries in Italy and Spain

were among the first signatories of their respective national diversity charters, which constitute a public commitment to diversity and inclusion. And our “Women in Leadership” network has also laid the ground for a global mentoring program at Henkel, due to be launched in 2010.

Procurement

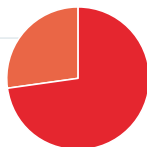
Fiscal 2009 was again characterized by severe price volatility in the procurement markets. Following the fall in the prices of raw materials such as crude oil, ethylene, propylene, palm kernel oil, metals and paper in the first quarter as a consequence of the global economic crisis, the prices of, in particular, petrochemical derivatives began to rise again by the start of the second quarter. The average price level for raw materials for the year as a whole was, however, below that of the previous year. With a natural time lag, this also had a beneficial effect on the costs of the raw materials and packaging purchased by Henkel.

Our expenditures on direct materials (raw materials, packaging, purchased goods and services) in the year under review amounted to 5.9 billion euros, a fall of around 0.7 billion euros compared to the previous year. This is largely due to lower production volumes coupled with the decrease in prices for raw materials and packaging. 2009 was the first full financial year to contain the procurement expenditures of the National Starch businesses.

Aside from our 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 sourcing strategy. 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 strong negotiating positions and creates scope for the further consolidation of our vendor base. Part of this program also involves selecting a competitive portfolio of suppliers for each region as part of our long-term planning. Another core element is the further development of business relationships with vendors in whom we see significant potential cost advantages with

Management structure

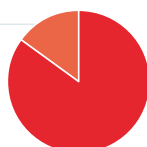
Female 27 %



9,525 employees; average age: 42.6; 82 nationalities

Senior executive personnel

Female 15 %



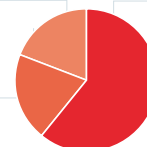
756 employees; average age: 46.9; 49 nationalities

Expenditures by type

Contract manufacturing and traded goods 19 %

Raw materials 61 %

Packaging 20 %



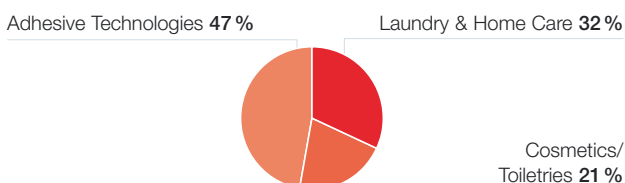
respect to manufacturing, logistics, quality and innovation. We support this program with individual target agreements involving our strategically important suppliers.

Against the background of persistently high price volatility in the procurement and financial markets and the tense economic situation, one important element of our sourcing strategy is that of expanding our integrated and all-encompassing risk management capability. As part of our active price management approach, we establish strategies for safeguarding prices over the longer term both on a contractual basis and – where appropriate and possible – by means of financial hedging instruments. We also systematically analyze the effects of currency fluctuations on procurement costs and introduce corresponding countermeasures to reduce foreign exchange risks. We constantly monitor our vendor portfolio in order to minimize the risks of financial failure among our suppliers. If a vendor is considered to be in a critical state, 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 adhesives, raw materials for aqueous 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 30 percent of our total direct materials expenditure. Our five largest suppliers account for around 11 percent of our cost of direct materials.

Our annual expenditure on indirect materials and services, plus logistics, amounts to some 3.4 billion euros, or around one third of total procurement expenditures at Henkel. Here we have been able to reduce procurement prices in all areas compared to the previous year through the introduction of savings measures. These have been initiated both regionally and globally in all the relevant categories on the basis of procurement strategies extending across the entire corporation.

Expenditures by business sector



Production

Henkel operates 203 production sites in 57 countries. Our biggest site is located 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 plant 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. To enable transfer of production from Genthin to Düsseldorf, we substantially expanded our capacity in the course of 2009 through the construction of a modern liquid detergent manufacturing facility. We reduced the number of production sites around the world to 33 last year. Through concentrating our detergent production on just a few high-performing factories, we have been able to generate substantial cost advantages.

Our biggest plant for manufacturing products for 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 the sale of a production facility in the USA and one in India, and closure of two factories in China, the business sector is efficiently structured with eight factories worldwide. We expect further efficiency enhancements through the expansion of production sites with a more regional responsibility – our “regional hubs” – in Columbia and Thailand.

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 wide range of adhesives and sealants. In the course of our “Global Excellence” program and the integration of the National Starch businesses, we have over the last two years significantly consolidated our production network, closing 30 factories, therefore reducing the number to 162. In 2010, we intend to continue the optimization of our global manufacturing capability and to undertake further production transfers to more efficient locations.

We have improved our production network throughout the Group as part of the efficiency enhancement programs implemented, reducing in particular the number of production sites in the developed markets. We have also cut

complexity within the overall value chain with respect to both production and logistics, adding simplicity in product manufacturing and in our vendor selection processes. As a result, we have been able to substantially increase efficiency and reduce cost.

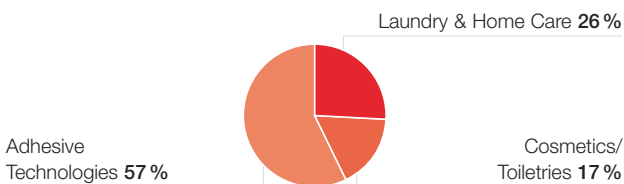
Our optimization activities are also aligned to making our manufacturing operations ever more environmentally compatible. Measures to reduce energy consumption and water usage make a direct contribution to improving the climate compatibility of our manufacturing processes. New storage concepts and the manufacture of packaging materials at the point of fill also reduce transportation, likewise reducing our carbon footprint. For further details relating to the development of our environmental parameters, please refer to the sustainability/corporate social responsibility section on **AR** page 56.

The current and planned measures are expected to contribute equally to 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 and improve the technology of our IT capability for planning and control.

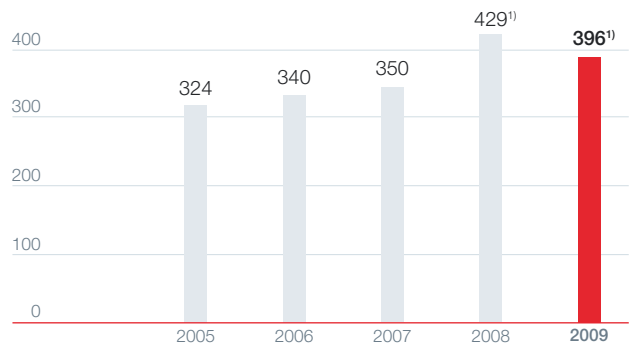
Research and development

Expenditures on research and development at Henkel amounted to 396 million euros in the year under review, compared to 429 million euros in 2008. After adjusting for restructuring charges, the 2009 figure was 383 million euros compared to 377 million euros in the previous year. The R&D share of sales was 2.9 percent (adjusted: 2.8 percent) following 3.0 percent in 2008 (adjusted: 2.7 percent). This demonstrates that, even in this difficult economic environment, we managed to maintain our expenditures on research and development at a high level, conscious of the fact that innovations are an important driver of profitable growth.

R&D expenditures by business sector



R&D expenditures
in million euros



¹⁾ Includes restructuring charges of 52 million euros in 2008 and 13 million euros in 2009

As an annual average, the number of employees working in research and development at our sites around the world was 2,743 compared to 2,942 in 2008. The main reasons for this decline lay in the “Global Excellence” efficiency enhancement program initiated in 2008 and the associated dissolution of our Corporate Research division, coupled with the integration of the National Starch businesses.

We have stepped up our drive toward open innovation – i.e. the increased inclusion of universities, institutes, suppliers and customers within our innovation process – as part of our worldwide research and development strategy. To this end, we have also increased the funds available for collaboration with external partners. Three examples indicate the kind of successes that can be achieved with this approach:

In cooperation with the Fraunhofer Institute for Manufacturing Technology and Applied Materials Research in Bremen, Germany, and a leading automobile manufacturer, our Adhesive Technologies business sector has developed a new generation of energy-absorbing structural adhesives for composite materials.

In conjunction with the launch of our automatic dishwashing detergent Somat 9, we together with Cognis garnered the 2009 Best Innovation Contributor Award for the development of a unique surfactant for improved dishwasher drying performance. In addition, Symrise AG has provided a completely new fragrance technology for Somat 9 to neutralize unpleasant odors.

In a collaborative partnership involving our cosmetics research people and external research institutes, a new Amino Cell Rebuild Technology has been developed enabling the reconstruction of the internal hair structure using hair-identical proteins. This research outcome provided the technological platform for the relaunch of Bonacure, our biggest salon hair care brand for professional hairdressers.

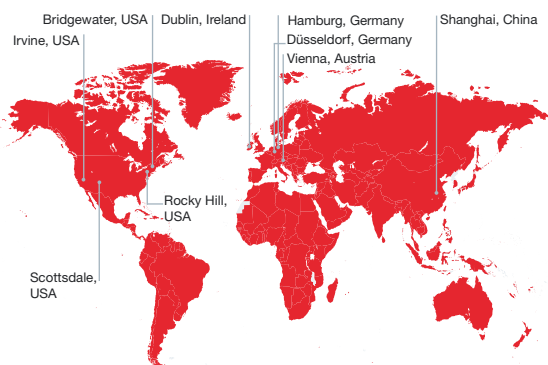
After ten years of successful research collaboration, we have allowed our contract with Henkel Kindai Laboratories in Japan to expire, and have instead launched a number of special projects with Japan's top universities.

Following the successful integration of the National Starch businesses, the Adhesive Technologies business sector has restructured its research portfolio with the intention to concentrate on larger projects and thereby increase both its innovation rate and the number of breakthrough innovations available to the business sector.

Our scientists have made valuable contributions to our corporate success in the following areas:

- » Development of ammonia-free permanent hair colorants with certain natural-based ingredients for home and salon applications
- » Joint development of "Dermo-Ident" technology with the beauty expert Dr. Caspari for innovative anti-aging cosmetics
- » Development of Dial Anti-Ox, a new body wash with cranberry extract and vitamin E pearls as an active antioxidative complex – the USA's most successful launch in this category in 2009
- » Development of an innovative capsule technology for the optimum release of fragrances, particularly for laundry detergent additives
- » Development of a new surfactant with a substantially improved drying effect for use particularly in machine dishwasher detergents
- » Development of Purex Complete 3-in-1, a product comprised of laundry detergent, fabric softener and an anti-static compound
- » Development of halogen-free structural adhesives for mobile devices
- » Development of Pattex No More Nails Invisible – a high-performance adhesive that dries to a transparent finish

Major R&D sites



- » Further development of TecTalis, a new high-performance generation of pretreatment products free of heavy metals for the automotive industry

All the new developments and products exhibit an improved sustainability profile, particularly in the form of lower energy consumption, the increased use of renewable raw materials and/or a reduced waste footprint.

Each year we select a number of outstanding developments for our Fritz Henkel Award for Innovation. In 2009, this accolade went to three interdisciplinary project teams in recognition of their efforts in the realization and commercialization of the following concepts:

- » **Purex Complete 3-in-1 Laundry Sheets:** Setting a completely new set of performance standards, Purex Complete 3-in-1 laundry sheets offer an innovative combination of a laundry detergent – significantly more concentrated than the market standard – with a fabric softener and an anti-static compound to prevent the build-up of charge in the drier. This unique product concept is a further successful example of the strategy adopted by our Laundry & Home Care business sector of offering consumers outstanding, innovative product performance accompanied by high environmental compatibility – Quality & Responsibility.
- » **Ammonia-free Permanent Colorants Schwarzkopf Essential Color and Essensity:** With Essential Color (for consumers) and Essensity (for the salon sector), the experts from Schwarzkopf have succeeded for the first time in developing a permanent colorant with no ammonia whatsoever, offering optimum hair care with a maximum of natural-derived raw materials. Essential Color, our first 100 percent permanent hair colorant without ammonia and with nature-based ingredients such as lychee and white tea, offers an intensively radiant color with long-lasting gray coverage. And, for the professional hairdresser, Essensity is the first colorant without ammonia, fragrance, silicones or preservatives capable of ensuring a permanent effect with 100 percent gray coverage. Essensity – 100 percent performance, 0 percent compromise.
- » **Technomelt Supra Cool 130:** A newly developed hotmelt adhesive for packaging that combines the best of both worlds – because Technomelt Supra Cool 130 significantly reduces energy consumption thanks to a processing temperature of just 130 degrees Celsius, i.e. 40 degrees Celsius less on average than previous Supra hotmelts; yet all the advantages of Supra technology are still available: high adhesive strength, outstanding flowability and a substantially wider range of application suitability.

We currently have around 8,000 patents in place, protecting our technologies around the world. We also have some 5,000 patent applications pending, and we have approximately 2,300 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 and consumers are the focus of all our thoughts and actions. Consequently, we align our marketing and distribution activities in each of our business sectors to the respective requirements of these primary target groups.

At Laundry & Home Care, our marketing activities are controlled from headquarters and the regional competence centers. Our sales and distribution activities, on the other hand, are planned on a country-specific basis and coordinated at the regional level. Our direct customer group in this business segment is the grocery retail trade with distribution channels in the form of supermarkets, mass merchandizers/hypermarkets and discount stores. In Western 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. As the trade's first point of contact, the Sales unit provides a full range of competences in serving our 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 activities. It also develops and implements media strategies and advertising formats aligned to the consumer.

At the Cosmetics/Toiletries business sector, our marketing strategies are centrally planned and globally implemented with respect to 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 with information and point-of-sale campaigns in retail outlets. Consumers purchase our products from grocery retailers, specialist drug stores and department stores. We address our customers in the salon business directly through the activities of our own field sales force. They support professional hairdressers through, for example, product demonstrations

and technical advice in the salons. As an additional service, we also offer specialist seminars and training courses in our 50-plus Schwarzkopf academies worldwide.

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 and craftsmen 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. Our Technical Customer Services people have detailed knowledge both of the properties of our products and of their application, and can therefore assist our customers in everything from the choice of the right product and its usage to fine adjustment of their production processes.

The close contact maintained by our employees with our customers and users is also an important source of input for innovation and development, enabling us to meet existing requirements even more effectively and develop new applications for our adhesives.

For us, communication with end users is of central importance. While we develop our marketing strategy at the global or regional level, we implement the measures derived at the national and 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, with technical advice, product demonstrations, training courses and regular appearances at key industrial fairs. Aside from the classic communication media, the internet is also becoming increasingly important as a platform for efficient dialogue with our customers and users.

Sustainability/ Corporate social responsibility

Henkel is dedicated to sustainability and corporate social responsibility (CSR). We clearly state this principle as one of the corporate values binding on all our employees around the world. In generating our sales and profits, we conduct all of our business in a socially responsible manner. We are convinced that sustainable business practices – that is to say providing the best possible product quality combined with effective environmental protection and social responsibility – are essential to our long-term entrepreneurial performance. Henkel's constant endeavors to reconcile economic, ecological and social aims are a salient feature of our 130-year-plus corporate history.

Similarly, many of our customers expect from us not only best-quality products and persuasive innovations but also proof of our commitment to sustainable development and corporate social responsibility. In meeting these demands, we are able to call upon decades of experience that have enabled us to set the pace as a leading partner for retailers, consumers and industry alike. It is particularly gratifying when our customers also recognize this. For example, Wal-Mart honored Henkel with the Wal-Mart Sustainability Award, identifying us as the supplier that, seen globally, has made the biggest contribution to sustainability. With the Coop Natura Prize, we were also recognized by the Swiss retail group Coop in the category Best Sustainability Promoter. Our contributions are similarly respected by our industrial customers, as evidenced by our receipt of Kellogg's Environmental Stewardship Challenge Award.

Once again in 2009, our performance with respect to sustainability and corporate social responsibility 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 Index and in the European Dow Jones Stoxx Sustainability Index, again being named Sustainability Leader in the market sector Nondurable Household Products. Our inclusion in the FTSE4Good index was also confirmed. And in its Corporate Responsibility Rating, the company oekom research AG again declared us to be the best performer in the consumer goods segment. We also took first place in the DAX rankings ascertained by the business magazine *Wirtschaftswoche* on behalf of oekom research AG. Further, the Ethisphere Institute and Forbes Business Magazine confirmed Henkel's position on the list of the World's Most Ethical Companies.

Alignment and focus

Right across the value chain, we consistently and systematically align our activities to the challenges of sustainable development. These we have categorized on the basis of five focal areas: energy and climate, water and wastewater, materials and waste, health and safety, and social progress. The importance of these issues is constantly increasing with expansion in the world population, the rise in general living standards and the accompanying growth in consumption. Therefore, it is and will remain one of our central tasks to contribute to sustainable consumption.

Every day, millions of customers and consumers worldwide decide in favor of brands and technologies that offer quality and responsibility from Henkel. It is therefore both our duty and our desire to ensure that all new products contribute to sustainable development in at least one of our five focal areas. Hence we concentrate our efforts on innovations that combine product performance and quality with responsibility toward people and the environment. And we endeavor to properly and effectively convey the importance and the added value of these innovations to our customers and consumers. To this end, we use a range of vehicles from direct product communication to detailed information provided in the form of newsletters or, for example, at special demonstration events.

The common focus of the company and our brands on the key CSR challenges constitutes an important basis for the credible implementation of our sustainability strategy in the marketplace. And through our visible dedication, we strengthen both our brands and the reputation of Henkel, enabling us to consolidate our market positions worldwide.

Objectives and progress achieved

As long ago as the 1980s, we committed in our "Principles and Objectives of Environmental Protection and Safety" to promoting occupational health and safety, conserving resources and reducing emissions. These principles and objectives continue to be applied at both the corporate and local site level, and we have been able to achieve major improvements as a result. Taking this as our basis, at the beginning of 2008 we defined the following four 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

Sustainability performance 2005 to 2009

Environmental indicators per ton of output

Energy consumption	-26%	↘
Waste	-37%	↘
Water consumption	-12%	↘
<hr/>		
Occupational accidents ¹⁾	-57%	↘

¹⁾ Per million hours worked

Again in the year under review, we were able to improve our sustainability performance on a number of important points. For example, the savings we have made with respect to energy consumption have helped to mitigate the effect of rising energy prices. Further, the associated reduction in carbon dioxide emissions contributes to the achievement of climate protection targets.

In addition to optimizing our own production processes, we focus particularly on the development of products and technologies that save energy in the use phase – for the majority of the energy consumption and the associated carbon dioxide emissions occur once our products have been sold and put into use. One example is laundry detergent. Energy savings made by washing at low temperatures can make an important contribution to climate protection. Appropriate methods of measurement have yet to be developed in order to communicate these contributions in a persuasive and credible manner, and this is an area in which we are keen to drive progress forward. We are therefore currently taking part with products from all three of our business sectors in the “Product Carbon Footprint” pilot project with full participation in the national and international dialogue relating to this issue.

Organization and dialogue

The Henkel Management Board bears overall responsibility for our sustainability policy. Our Sustainability Council steers our global sustainability activities in collaboration with our operating business sectors, our corporate functions and our regional and national companies.

By joining the United Nations Global Compact in July 2003, we 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 through our Code of Corporate Sustainability and our Code of Conduct. From these codes are derived our more detailed internal SHE 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 Audit. In addition, Henkel companies have their management systems externally certified. As of the end of 2009, 58 percent of our production volume was generated at sites certified in accordance with the international environmental management standard ISO 14001.

As a responsible corporate citizen, Henkel provides financial and in-kind support for activities aligned to social needs, the environment, education, science, health, sport, art and culture. Since 1998, we have also actively supported the volunteer work performed by our employees and retirees through our MIT Initiative (Make an Impact on Tomorrow). In 2009, we supported a total of 1,143 charitable MIT projects in 76 countries, of which 349 were children-related.

Future-capable solutions promoting sustainability can only be developed in dialogue with all social groups. In order to be able to consider and evaluate the interests of the various parties involved, we constantly seek dialogue with our stakeholders at the local, regional and international level. These include our employees, shareholders, customers and suppliers, public authorities, politicians, associations and non-governmental organizations as well as representatives of academia, the sciences and the public at large.

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

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



Purex is the USA's number one in the rapidly growing segment of mid-priced liquid laundry detergents. Now Purex Complete 3-in-1, launched in 2009, has also been enthusiastically received by retailers and consumers alike. This innovation combines the performance of detergents and softeners with an anti-static compound to prevent wash static in the drier. And it was developed by the interdisciplinary team pictured here in Scottsdale, Arizona, USA.

From the left:

Thomas Britt
Director –
Supply Chain

Keith Cardinal
Manager,
Package Engineering –
Laundry Care

Katherine Yu
Senior Scientist –
Product Research
and Development

Stephen Koven
Brand Manager –
Laundry Care

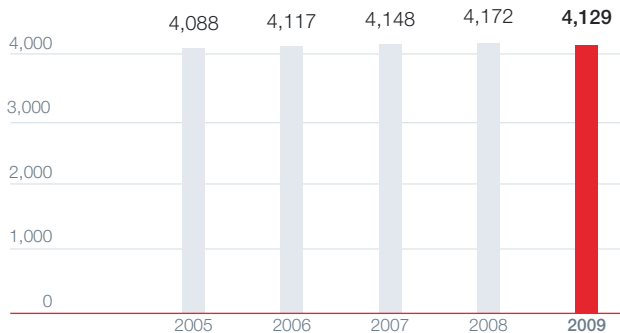
Jack Hudson
Engineering Fellow –
Process Development

Margaret Heyer
Manager, Contract
Manufacturing –
Supply Chain

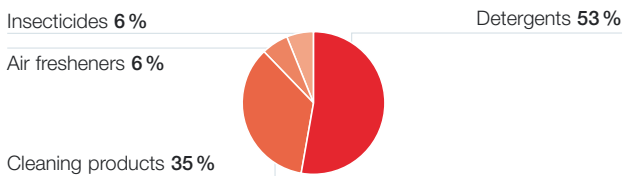
Kristopher Stathakis
Senior Project
Manager –
Supply Chain

Laundry & Home Care

Sales
in million euros



World market for laundry and home care products



- » Organic sales growth of 2.9 percent
- » Adjusted operating profit improved to 530 million euros
- » Adjusted EBIT margin increased by 2.0 percentage points to 12.8 percent

Economic environment and market position

The volume of the world market for laundry and home care products in 2009 amounted to around 91 billion euros. The markets of relevance to Henkel remained robust, expanding slightly despite the difficult world economic situation. Once again, market growth from a world perspective was more price than volume-driven. In the course of the year, however, price levels came under pressure as the general economic climate deteriorated.

Western Europe saw a moderate expansion in the market for detergents and household cleaners in the year under review. The economic slump caused uncertainty among consumers. This led to increased price sensitivity and, as a result, a rise in the market share of private labels and also an increase in the share of the market attributable to discounters. Despite these rather unfavorable competitive

Key financials¹⁾

in million euros	2008	2009	+/-
Sales	4,172	4,129	-1.0 %
Proportion of Henkel sales	30 %	30 %	0.0 pp
Operating profit (EBIT)	439	501	14.0 %
Adjusted operating profit (EBIT) ²⁾	450	530	17.8 %
Return on sales (EBIT)	10.5 %	12.1 %	1.6 pp
Adjusted return on sales (EBIT) ²⁾	10.8 %	12.8 %	2.0 pp
Return on capital employed (ROCE)	16.9 %	19.6 %	2.7 pp
EVA [®]	166	232	39.8 %

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

pp = percentage points

²⁾ Adjusted for one-time charges/gains and restructuring charges

Sales development

in percent	2009
Change versus previous year	-1.0
Foreign exchange	-3.9
After adjusting for foreign exchange	2.9
Acquisitions/divestments	0.0
Organic	2.9

conditions for brand manufacturers, we were able to maintain our leading position in the overall Western European market.

Many countries in Eastern Europe were unable to repeat the double-digit percentage growth rates exhibited in previous years, reflecting particularly clearly the impact of the global economic and financial crisis. This had the effect of restricting growth and appreciably influenced the purchasing behavior of consumers. In this challenging market environment, we nevertheless succeeded in expanding our market share and further reducing the gap to our biggest competitor.

In the growth regions of Africa/Middle East, Latin America and Asia, the markets of relevance to us underwent, in some cases, double-digit growth rates. And with our strong market position, we were able to benefit from the dynamic developments encountered in the Middle East and also in North Africa.

The laundry and home care market in North America remained generally stable last year, albeit with a mixed set of developments across the individual categories. While we noticed a small degree of growth in the detergents market, sales

volumes in the household cleaners market decreased slightly. With our detergent brand Purex, we were able to expand our market position through the launch of new products such as Purex Complete 3-in-1, providing us with a good position as competition became increasingly price-driven.

Business activity and strategy

The business sector is globally active in the marketing, selling and distribution of branded products for the laundry and home care markets. The Laundry segment 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 cleaners for bath and WC applications together with household, glass and specialty cleaners. We also manufacture hand and machine dishwashing products and have a market presence in selected regions with air fresheners and insecticides.

Our objective is to further promote profitable growth by driving the organic expansion of our continuing operations. To this end, we intend over the medium term to further expand the share of sales accounted for by our growth regions from the strong and profitable platform provided by our positions in Western Europe and North America. Specifically, our aim is to harness the dynamics of the emerging economies, increase our market shares in the countries concerned and raise profitability to the high level of the more mature regions. We are endeavoring to further extend our leading market positions in Eastern Europe and North Africa. In our other growth regions, we intend to further reduce the gap to the current market leaders.

The year under review demonstrated that successful innovation can make a significant contribution to profitable growth, particularly in economically difficult times. Consequently, it remains our objective to achieve and maintain over the long term a high innovation rate of around 40 percent and to consolidate and expand our innovation leadership in our markets. With thorough, efficient control of the entire innovation process, we are able to quickly identify and harness consumer trends and convert them into products. We are also continuously reviewing our existing supply portfolio, responding to changing consumer needs by adapting our product range. For this, we pursue a "brand cluster" strategy in which our main focus is on our major international brands and on promoting their continuing disproportionate growth versus our portfolio

as a whole. Our local brands offering high inherent brand identity in terms of positioning, formulation and packaging are being more closely associated with these focus brands. This enables us to generate synergies in both production and in our advertising investments. Through this strategy, our ten top brand clusters account for almost 80 percent of our sales, effectively utilizing both the strength of our international brand concepts and those of our well established local brands.

Sales and profits

Sales nominally decreased by 1.0 percent to 4,129 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 2.9 percent. In 2009, this organic improvement in sales was due exclusively to higher pricing levels, while volumes sold underwent a slight decline.

In the regional breakdown, the main increase in sales achieved was in Europe/Africa/Middle East. We posted double-digit organic sales growth both in Eastern Europe and in Africa/Middle East. And sales underwent particularly significant expansion in Russia and Egypt, with our market positions in those countries further expanding. In Western Europe, on the other hand, we were unable to quite reach the sales level of the previous year in volume terms, although the average revenue generated by our products rose substantially. The contributory factors in this regard were the price increases implemented at the end of the previous year, and new product launches that enabled us to successfully combat the rise in demand for cheap own labels. In Latin America, we were able to substantially increase organic sales and expand our market position. Our sales performance in Asia was affected by our exit from the Chinese market at the end of 2008. After adjusting for this exceptional circumstance, sales in Asia underwent a gratifying increase, with our entry into the South Korean laundry care market yielding very promising initial results. In addition to our position as market leader in the supply of household insecticides, we have also been present in the South Korean market since the fourth quarter of 2009 with our biggest international laundry brand Persil, which is already enjoying a high level of retailer acceptance. Our business in North America remained stable overall. Here we celebrated a major market success in the form of our innovation Purex Complete 3-in-1. These groundbreaking laundry

sheets combine the performance of a laundry detergent and fabric softener while at the same time preventing the wash load from becoming charged with static in the drier.

We increased our operating profit (EBIT) by 14.0 percent to a new record high of 501 million euros. After adjusting for foreign exchange, the rise was an even more respectable 19.3 percent. Reflected in this result are, in addition to selling price stability as compared to the end of the previous year, our successful measures aimed at reducing cost and enhancing efficiency, plus a decline in our raw material prices. In order to support our new product launches and as a contra-cyclic response to the difficult overall economic situation, we substantially increased our advertising investments last year. At 12.1 percent, return on sales reached a new record level, improving by 1.6 percentage points. Return on capital employed (ROCE) also exhibited a substantial rise of 2.7 percentage points to 19.6 percent, due in particular to the improvement in the management of our net working capital.

Business segments

In the *Laundry* business segment, the greatest growth momentum in the year under review came from our heavy-duty detergents and fabric softeners. In regional terms, the main boost to growth was from our heavy-duty detergents in Europe/Africa/Middle East, with double-digit growth rates having been achieved in a number of countries of Eastern Europe and the Middle East. We also succeeded in expanding the market share of our heavy-duty detergents in Western Europe, with benefits accruing from our successful innovations in this category. We launched new Persil ActicPower in a number of countries of Western Europe. This product requires only half the usual detergent dosage and develops its full laundry power at just 15 degrees Celsius. Our fabric softeners saw sales increase primarily in Eastern Europe. We were able to generate additional sales and increase market share through the launch of Vernel Crystals – innovative fragrance crystals for the wash – and new fragrance variants for our Vernel and Silan brands.

The main contributors to the organic sales growth registered by our *Home Care* segment were our dishwashing detergents and WC products. While sales in machine dishwashing products increased particularly in Eastern Europe, hand dishwashing product sales achieved their highest growth rates in the Africa/Middle East region. Here, we were able

to further consolidate our market positions with double-digit growth rates in many countries. In the market for machine dishwashing detergents in Western Europe, we launched Somat 9, once again exemplifying our innovative strengths by extending the integral functions with an odor neutralizer and an extra-dry effect. In the case of our WC products, we achieved our highest growth in Eastern Europe, increasing our market share overall with the aid of new products such as Bref WC Tornado Gel: once the gel makes contact with water, a powerful cleaning foam is produced that extends around the toilet bowl, exerting a self-acting cleaning effect.

Capital expenditures

Our investments in the year under review were primarily geared to optimizing and rationalizing our production processes. Further capital expenditures were assigned to the field of plant safety. In total, we invested 151 million euros in property, plant and equipment, compared to 163 million euros in the previous year. This decrease is due to the completion of a number of special projects in 2008.

Outlook

We expect the laundry and home care markets of relevance to us to exhibit a slight decline in their growth dynamics in 2010. In North America and Western Europe particularly, we anticipate that market expansion will be no more than minor, while competition is expected to remain intense. The anticipated rise in sales will therefore be generated by our growth regions.

Within this environment, we intend to expand our market positions in 2010 and to once again outperform our relevant markets in terms of organic sales growth. We also expect a slight increase in adjusted operating profit compared to prior year.

We see opportunities arising from a revival in demand in Western Europe and North America, a continuation in the sales dynamics exhibited by the growth regions, and in the successful launch of innovations. There is a risk that the propensity to consume could significantly decline, for example as a result of a rapid rise in unemployment. We also see risks arising from increasing competition and promotional pressure in today's already highly competitive markets. Added to this is the uncertainty of commodity price developments, which will depend on the world economic situation.



In 2009, Schwarzkopf – the Henkel brand that generates the company’s highest revenue – celebrated 111 years of quality, competence and innovation in hair cosmetics. Our experts in colorants are constantly developing fascinating hair colors for consumers and stylists alike.

From the left:

Nicola delli Venneri
International Production
and Packaging
Development

Dr. Astrid Kleen
International Research
and Development –
Colorants

Marie-Eve Schroeder
International Marketing –
Colorants, Consumer
Business

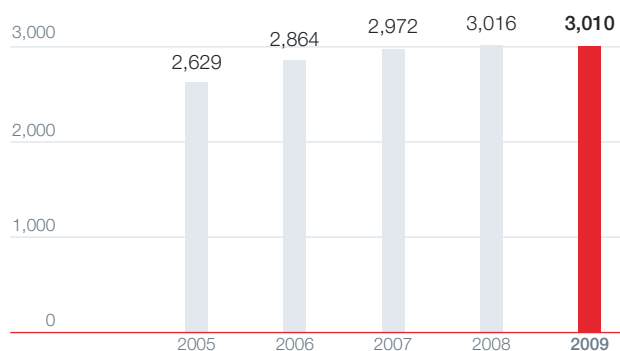
Renate Simon-Florek
International Marketing –
Colorants, Salon Business

Dr. Mustafa Akram
International Research
and Development –
Colorants

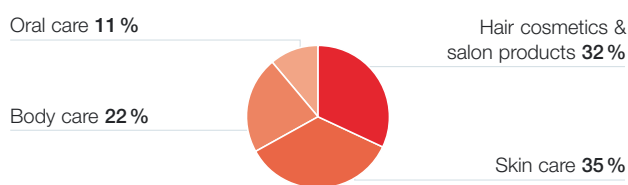
Anett Kaplan
International Marketing –
Colorants, Consumer
Business

Cosmetics/Toiletries

Sales
in million euros



World market for cosmetics and toiletry products



- » Organic sales growth of 3.5 percent
- » Adjusted operating profit increased to 387 million euros
- » Adjusted EBIT margin increased by 0.3 percentage points to 12.9 percent

Economic environment and market position

The world cosmetics market of relevance to us was valued in 2009 at 135 billion euros, representing a slight decline due to the world economic situation. The regional developments observed were very mixed. Our core markets in Western Europe and North America experienced a decline overall, particularly with respect to retail hair cosmetics. Nevertheless, we succeeded in generating disproportionate growth and in achieving significant market share increases. We substantially expanded our already strong market positions in Western Europe on the back of positive developments in hair cosmetics and body care. And in North America, we were able to effectively enhance our position in the core segments of styling and body care.

Key financials¹⁾

in million euros	2008	2009	+/-
Sales	3,016	3,010	-0.2 %
Proportion of Henkel sales	21 %	22 %	1.0 pp
Operating profit (EBIT)	376	387	3.1 %
Adjusted operating profit (EBIT) ²⁾	379	387	2.1 %
Return on sales (EBIT)	12.5 %	12.9 %	0.4 pp
Adjusted return on sales (EBIT) ²⁾	12.6 %	12.9 %	0.3 pp
Return on capital employed (ROCE)	17.5 %	18.2 %	0.7 pp
EVA [®]	150	164	9.3 %

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

pp = percentage points

²⁾ Adjusted for one-time charges/gains and restructuring charges

Sales development

in percent	2009
Change versus previous year	-0.2
Foreign exchange	-2.7
After adjusting for foreign exchange	2.5
Acquisitions/divestments	-1.0
Organic	3.5

The markets in Eastern Europe, the Africa/Middle East region and Asia-Pacific continued to exhibit above-average growth, and we were able to generate disproportionate expansion in these regions, gaining significant market share.

The hair salon market was heavily impacted worldwide by the economic crisis, undergoing a substantial decline in activity. Within this difficult market environment, Schwarzkopf Professional was nevertheless able to successfully maintain its market share and strengthen its position as the global number three.

The Cosmetics/Toiletries business sector holds leading positions in the markets of relevance to us around the world and was again able to substantially expand its market shares in the year under review.

Business activity and strategy

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

hair salon business. Our strategy to expand our branded consumer goods operations is focused on strengthening our market positions in Western Europe and North America, in Eastern Europe, the Middle East and other specific growth markets. In the hair salon business, we are continuing to pursue our globalization strategy and aiming to generate growth particularly in Asia-Pacific, Latin America and the Middle East.

The achievement of organic expansion lies at the focus of our growth strategy, which we are implementing through the development of innovative products and their rapid launch. We also aim to complement our organic sales growth through the acquisition of carefully selected businesses. As part of our active style of portfolio management, we regularly review our business activities. Hence, for example, we sold our marginal amenities and chemical products business in conjunction with the disposal of our US cosmetics plant in Aurora, Illinois. And in July 2009, we concluded the sale of the Agree brand. We also discontinued a number of further minor brands.

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. The emphasis of our strategy is on further developing our leading core brands. With this concentrated portfolio management approach, our ten top brands again made a disproportionate contribution to sales in 2009, accounting for more than 87 percent of the business sector's revenues. And we intend to follow this dynamic and profitable growth path in the future through our proactive innovation strategy and dedication to consistently strengthening our brand equities. Our current innovation rate lies in the region of 40 percent, helped by harnessing the additional growth potential available from strategic partnerships with our customers.

We want to drive forward our hair salon business with further product innovations, and with efficient sales and distribution structures. And additionally, we will be looking to develop new regional potential on a selective basis.

Our aim is to consistently improve our profitability through the consistent expansion of our core businesses and core competences.

Sales and profits

With organic sales growth of 3.5 percent, the Cosmetics/Toiletries business sector was able to continue the very good growth of the previous years, despite the recession-

bound environment. In nominal terms, sales decreased by 0.2 percent to 3,010 million euros due to negative foreign exchange effects and the divestments in North America. The improvement in organic sales achieved in 2009 was due not just to higher price levels but also primarily to positive volume expansion.

The main contributors to organic growth were the successful development of our branded consumer goods business in Eastern Europe, with good performances also being posted in the regions of Africa/Middle East, Latin America and Asia-Pacific. In Western Europe too, we achieved encouraging results despite the recessive environment, and in North America we outperformed the market.

Sales of our hair salon business were below the level of the previous year, although developments were significantly better than those of the overall market.

At 387 million euros, operating profit (EBIT) was 3.1 percent above the prior-year level. After adjusting for foreign exchange, operating profit rose by 6.3 percent compared to the previous year. Systematic cost reduction measures, selective price increases and a further reduction in complexity led to an improvement in our cost structures. Return on sales rose by 0.4 percentage points compared to the previous year, attaining a new record level of 12.9 percent.

We increased return on capital employed (ROCE) by 0.7 percentage points to 18.2 percent. This was helped not only by the increase in profitability but also by the substantial reduction in capital employed arising from strict management of our net working capital.

Business segments

In our *Hair Cosmetics* business, we succeeded in achieving a significant organic increase in sales to new record levels accompanied by a corresponding expansion in our market shares.

We were able to further improve our market position through the early and successful launch of some top innovations in all segments, aligned to the changing requirements of consumers in this time of economic crisis. The main growth drivers were our Hair Care and Colorants businesses.

In the case of Hair Care, we saw our market shares reach new record levels, with the highly successful international launch of our Syoss brand making a notable contribution. The Gliss Kur brand further strengthened its European market share as a result of the launch of the Asia Straight and

Hair Active lines. We were also able to strengthen the leading position of our Schauma brand through the launch of Schauma Q10 and Schauma Hair Activator, and the relaunch of Schauma Color-Gloss.

In the Colorants business, the introduction of, in particular, the brand Schwarzkopf Essential Color – a permanent colorant without ammonia – generated market share growth. We were also able to increase the market share enjoyed by Palette, the market leader in Europe, with Palette Deluxe and the ten-minute colorant Palette 10. In the case of our Brilliance brand, the focus was on expanding the range through the introduction of Brilliance Intense Couleur. The colorant Diadem was enriched with the active ingredient Q10.

Against a background of contracting markets, our Styling business likewise made significant gains in market share. We consolidated the growth of Taft, the market leader in the European styling segment, through the launch of Taft Ultra with Silk Touch, and also Taft Maxx Power Styling Gel. And our “young fashion” brand Got2b gained further positive momentum through the introduction of “superkleber” [superglue] and “guardian angel.”

The 2009 innovation program was supported by measures celebrating the 111th anniversary of the Schwarzkopf brand, including a raft of special media and customer events.

The *Body Care* segment likewise continued to perform well. The core brands Fa and Dial successfully maintained their innovation offensive. The launch of the Fa Cream & Oil series with valuable care oils and the introduction of the men’s variant Extreme Cool led to an increase in market shares across Europe. There was a substantial rise in Dial sales resulting from the launch of Dial Antioxidant with Cranberry and Dial 3D Odor Defense. Right Guard also made significant inroads in the US American deodorant market with Right Guard Fast Break.

In the *Skin Care* business, the introduction of Diadermine’s Dr. Caspari Method Dermo-Ident treatment contributed to further consolidation of the position enjoyed by Diadermine in the rapidly growing anti-aging segment. The Chinese child skin care series Haiermian exhibited double-digit percentage sales growth as a result of the introduction of innovative products in that line.

In the *Oral Care* business, we likewise achieved good results with the new freshness variant Theramed 2-in-1 Arctic White.

Despite the difficulties of the market environment, we were able to further expand the position of our *Hair Salon* segment as the world number three. A major contributor to this success was our ability to further develop our position as innovation leader, particularly in the core categories of color and care. The Bonacure relaunch with Amino Cell Rebuild Technology once again underlined Bonacure’s claim as one of the fastest growing and most innovative care brands. The focus in the colorants category was on the launch of Igora Color 10, the first salon colorant that takes just ten minutes to apply, and Essensity – the first colorant without ammonia, fragrance, silicones and preservatives to offer permanent performance combined with 100 percent gray coverage.

Capital expenditures

The emphasis of our investment activity was on measures designed to optimize our structures and production processes. In all, we spent 40 million euros on property, plant and equipment compared to 84 million euros in the previous year. The decrease is due to the completion of a number of special projects in 2008.

Outlook

With the market environment remaining difficult, we expect 2010 to bring a further slowdown in the growth dynamics of the world cosmetics market of relevance to us. We expect sales momentum to emanate from the growth regions of Eastern Europe, Latin America, Africa/Middle East and Asia-Pacific.

In terms of organic sales growth, our aim is once again to outperform our relevant markets. We further expect a slight increase in adjusted operating profit compared to the previous year.

Our opportunities lie primarily in the further expansion of our market positions in Europe and North America, driven by the focused pursuit of our innovation offensive, and in extensively utilizing the potential that lies in our growth regions. The further expansion of our Schwarzkopf megabrand is of key importance in this regard.

Risks lie in the possibility of an increasing deterioration in the consumer climate in the face of rising unemployment. We expect the intensity of competition to remain persistently high, and that this will be manifested in continuous promotional pressure and high advertising expenditures. Further rising raw material and packaging prices may also increase the pressure on margins.



The worldwide activities of the Packaging, Consumer Goods and Construction Adhesives segment of the Adhesive Technologies business sector are presented and decided upon in team sessions. Included in these discussions is the segment's best selling brand, Dispomelt. Here we see the global management team at a meeting in Bridgewater, New Jersey, USA.

Sitting, from the left:

Steven Essick
Head of Finance

Jerry Perkins
Head of North
America

Jean Chesterfield
European HR
Key Account Manager

Jürgen Convent
Head of Marketing &
Innovation

Jean Fayolle
Head of Packaging,
Consumer Goods and
Construction Adhesives

Bjoerk Ohlhorst
Global Purchasing
Key Account Manager –
Adhesive Technologies

Standing, from the left:

Ray Di Muzio
Head of Global
Operations

Jörg Raichle
Head of Controlling,
Asia-Pacific –
Adhesive Technologies

Thomas Auris
Head of Asia-Pacific

Gary Raykovitz
Head of Global Product
Development

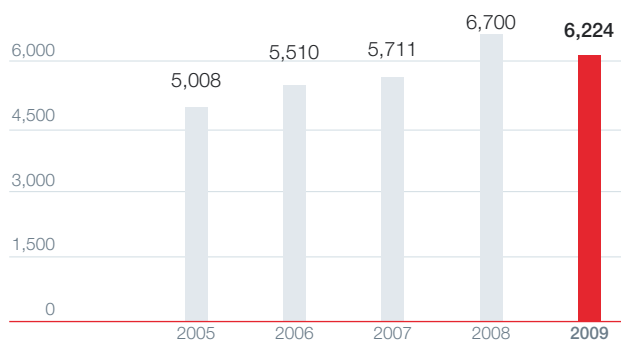
Ellen Greenhorn
Marketing

Julio Muñoz Kampff
Head of Adhesive
Technologies,
Latin America

Adhesive Technologies

Sales

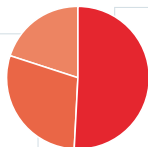
in million euros



World market for adhesives, sealants and surface treatment products

Craftsmen and consumers 20 %

Industry 51 %



Building adhesives 29 %

- » Decline in organic sales of 10.2 percent
- » Adjusted operating profit of 506 million euros
- » Adjusted EBIT margin of 8.1 percent

Economic environment and market position

Fiscal 2009 was characterized by the economic and financial crisis that gripped the world, exerting a negative impact on all the sales markets of the Adhesive Technologies business sector. There was a significant decline in production, particularly in the steel, automotive and electronics industries. The capital goods sector and the construction industry likewise registered heavy contraction. Private consumption also suffered from the consequences of the economic crisis, yet assumed the role of economic stabilizer. The effects of the situation were particularly noticeable in the developed regions of North America, Western Europe and Japan. The picture in the growth regions was mixed: although some countries in Asia and Eastern Europe suffered from the effects of the crisis, China and India proved to be more robust as the year unfolded. With the exception of Mexico, Latin America was also less adversely affected by the market downturn.

Key financials¹⁾

in million euros	2008	2009	+/-
Sales	6,700	6,224	-7.1 %
Proportion of Henkel sales	47 %	46 %	-1.0 pp
Operating profit (EBIT)	658	290	-55.9 %
Adjusted operating profit (EBIT) ²⁾	680	506	-25.6 %
Return on sales (EBIT)	9.8 %	4.7 %	-5.1 pp
Adjusted return on sales (EBIT) ²⁾	10.1 %	8.1 %	-2.0 pp
Return on capital employed (ROCE)	10.0 %	4.8 %	-5.2 pp
EVA [®]	-132	-543	-311 %

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

pp = percentage points

²⁾ Adjusted for one-time charges/gains and restructuring charges

Sales development

in percent

	2009
Change versus previous year	-7.1
Foreign exchange	-1.4
After adjusting for foreign exchange	-5.7
Acquisitions/divestments	4.5
Organic	-10.2

In this exceptionally difficult economic climate, the market of relevance to us for adhesives, sealants and surface treatment technologies exhibited disparate developments. In the first half of the year particularly, we had to cope with – in some cases – substantial decreases in sales in individual market segments, while other segments and regions were less impacted. Overall, we benefited from the high level of diversification inherent in our business portfolio. We are convinced that the megatrends underlying our markets remain relevant and intact and will, in future, return to drive business expansion. Increasing consumption in the growth regions will also lead to higher adhesives usage in the future; and the persistent need for energy efficiency and carbon dioxide reduction will add further growth impetus to the adhesives markets. The increased usage of lightweight construction materials, and measures to improve the thermal insulation of buildings will necessarily require the deployment of modern adhesive systems.

With the unique breadth of our product portfolio, further enhanced by the acquisition of the adhesives businesses of National Starch in April 2008, we have assumed a leading position both on a global scale and in the individual regions.

Business activity and strategy

Following the realignment implemented in the year under review, the Adhesive Technologies business sector now consists of five strategic business units (SBU). In order to sharpen our customer focus, we decided in 2009 to define our businesses more accurately on the basis of the market segments and the client requirements they serve. By also removing reporting levels, we not only shortened the decision-making paths, enabling us to respond more quickly to the requirements of our markets, we were able to cut cost as well. The individual strategic business units were also strengthened through a higher level of operating responsibility and the integration of important functions such as production. In Europe, we no longer manage our businesses on the basis of national boundaries but rather in accordance with these newly defined SBUs. There has been a significant improvement in management efficiency, now that the new structure is in place.

In the *Adhesives for Craftsmen, Consumers and Building* business, our focus is on brandname products for private and professional users together with products and system solutions for building professionals. For use in the home, school and office, we offer adhesives under the international brands of Loctite and Pattex, together with glue and correction products under the Pritt brand. And for decoration, renovation and house building or refurbishment work, our customers can choose from a wide range of adhesives and sealants including our Pattex power adhesives, Sista sealing compounds and Metylan decoration products. Under the Ceresit brand, we market products and systems for tiling, waterproofing and façade insulation.

The *Transport and Metal* business has overall responsibility for 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.

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 product portfolio encompasses Loctite products for industrial maintenance, repair and overhaul, plus a select range of sealants and system solutions for surface treatment.

The *Packaging, Consumer Goods and Construction Adhesives* business was reorganized in 2008 following the acquisition of the National Starch businesses. We have merged the associated portfolios of both companies within a single organization, substantially reducing complexity in the process. With this basis, we can now offer our customers in various sectors even more persuasive problem solutions with high-performance products of real quality.

Served by our *Electronics* business, our customers in the electronics industry use our range of high-tech adhesives and soldering pastes in the manufacture of microchips and printed circuit boards.

The Adhesive Technologies business sector therefore serves a wide range of customer groupings and industries around the world. And because we have such a broad spectrum of technologies, we can offer tailored services capable of generating optimum customer benefits. The high level of diversification in our business portfolio, serving sectors of differing cyclicity, also proved beneficial under the very difficult market conditions that prevailed in 2009, cushioning the decline in sales and securing our profitability.

In the case of branded products for private users sold via the retail trade, particular emphasis is placed on distribution and brand management, with the associated advertising and point-of-sale activities. With our leading brands and often high market shares, we occupy good positions right across the board.

In the industrial business, it is important to have a deep insight into different customer requirements and user expectations in order to create the basis for supplying the tailored systems required. Aside from the products themselves, such solutions will usually also include major advisory and training components. Following the assignment of our production activities to the individual strategic business units in 2009, we are now even better positioned to offer the flexibility necessary to reliably satisfy customer-specific demands.

We endeavor to achieve high innovation rates in all our business segments in order to generate sustainable, profitable sales growth. Our current innovation rate lies at around 20 percent. In addition to the development of new solutions for existing fields of activity, finding and exploiting new applications for our products constitutes an important aspect of our strategy.

We regularly review all the components of our portfolio against the long-term objectives of the business sector. As a consequence of this process, spring 2009 saw the divestment of our adhesive tapes operation under the brands Duck, Painter's Mate Green and Easy Liner in the USA and Canada.

Our business priority going forward is on achieving profitable organic growth and harnessing the potential for synergies and economies of scale that lie within our organization following the successful acquisition of the National Starch businesses. We intend to utilize the favorable positions we enjoy as a supplier in the various market segments in order to generate further growth while realizing in full the planned savings arising from the latest cost-reducing measures.

Sales and profits

In a heavily contracted overall market, sales of the Adhesive Technologies business sector decreased in the year under review by 7.1 percent to 6,224 million euros. Organically – i.e. after adjusting for foreign exchange and acquisitions/divestments – the decline was 10.2 percent. In this difficult environment, sales in the mature markets of Western Europe and North America in particular were well below the prior-year levels. In the growth regions, the decreases were less pronounced; and in Latin America, sales actually increased compared to the previous year.

Through accelerated realization of synergies arising from the integration of the National Starch businesses, the early introduction of our efficiency enhancement program “Global Excellence” and further substantial efforts to reduce cost, we were able to significantly improve our return on sales in the course of the year. Overall, we considerably reduced our structural cost levels while maintaining investments in research and development. In pursuit of our policy to consolidate our production network, we have closed 30 factories in the last two years, concentrating production at our most efficient sites. We have also earmarked a number of marginal activities for divestment and have already accounted for the valuation losses necessary in the event of their sale. In addition, we re-evaluated certain long-term contracts with suppliers and performed a number of impairment tests which led to the write-down of identified intangible assets.

Operating profit for the year as a whole fell significantly, by 55.9 percent to 290 million euros, as a result of substantial volume decreases, the corresponding low capacity utilization levels and the exceptional charges that had to be recognized. After adjusting for these one-time items and for restructuring charges, adjusted operating profit (“adjusted EBIT”) fell by 25.6 percent to 506 million euros. Compared to the previous year, return on sales decreased by 5.1 percentage points to 4.7 percent; nevertheless, the adjusted figure only decreased by 2.0 percentage points to 8.1 percent.

Return on capital employed (ROCE) fell by 5.2 percentage points to 4.8 percent. However, we were able to substantially decrease working capital through specific measures aligned to reducing inventories and trade accounts receivable.

Business segments

In the *Adhesives for Craftsmen, Consumers and Building* business, performance was affected not only by consumer reluctance and destocking by our customers but also the continuing recession affecting the building industry. Even against this background, we continued to pursue the launch of innovative products such as our new building adhesive under the Pattex brand. We were able to increase our business with the building industry overall, due primarily to the particularly gratifying developments encountered in the regions of Eastern Europe and Africa/Middle East.

The effects of the global economic and financial crisis were particularly noticeable in the *Transport and Metal* business. Nevertheless, here too there was a slight recovery observed during the course of the year, in which we also successfully participated. In our business activities involving, in particular, major OEM customers from the automotive and metal industries, we pursue a policy of maintaining close cooperation on a partnership basis. As an example, we were able to implement the first innovative process solutions to involve our Bonderite products for surface treatment on behalf of a major German premium automobile manufacturer.

The *General Industry* business suffered from the decline in industrial production and a low level of propensity to invest, particularly in the case of durable goods. Sales overall were well below the prior-year levels for this segment. Our operations involving products for industrial maintenance, repair and overhaul under the Loctite brand performed

at a more stable level and even posted a small degree of growth in the region of North America. We were able once again to underline our commitment to sustainability with the expansion of our product range to include halogen-free adhesives, and threadlock products which, thanks to new development work, no longer need to be marked with hazard symbols.

The *Packaging, Consumer Goods and Construction Adhesives* business remained somewhat more robust in a market environment characterized by falling demand for consumer goods. Although organic sales growth in this SBU declined, we were able to achieve in part substantial increases in the growth regions of Eastern Europe, Africa/Middle East and Latin America. Our adhesives for flexible packaging continued to perform well. As a result of the integration of the National Starch businesses, we are able to offer an even more comprehensive product portfolio. Our customers from the packaging industry, for example, have given an enthusiastic welcome to our integrated solutions comprising both adhesive and application system.

The *Electronics* business was heavily affected by developments in the semiconductor market, with significant shrinkage during the first half of the year being followed by a degree of recovery in the second half. However, sales overall remained substantially below the prior-year level. In the case of numerous product innovations, as with our lead-free soldering pastes, sustainability aspects were again given high priority.

Capital expenditures

2009 saw a continuation of our investment activities promoting the integration of the National Starch businesses. Due to the difficult economic climate with contracting production volumes worldwide, we raised the priority of investments aligned to the consolidation of our production capacities. This resulted in a significant decrease in capital expenditures on property, plant and equipment to 135 million euros in the year under review, compared to 201 million euros in the previous year.

Outlook

For 2010 we expect the markets of relevance to us to stabilize or even undergo a small degree of growth. As in the past, the growth regions are likely to develop better than the mature markets. At the moment, we anticipate that Europe and North America will only experience minor recovery across major market segments.

We expect the prices for raw materials and packaging to increase again, due particularly to the capacity adjustments that have occurred in the associated manufacturing industries.

Following the setbacks of 2009, we intend to return to the path of profitable growth in 2010. We aim to once again outperform our relevant markets in terms of organic sales growth. Given the significant improvement in our cost structure resulting from the measures introduced in 2009, we expect adjusted operating profit to undergo a substantial increase compared to the prior-year figure.

Our opportunities lie primarily in the introduction of innovations in existing areas of application, the development of new applications for adhesives, and the positive market dynamics of the growth regions.

The primary risks lie in the possibility that the anticipated market recovery will not take place, that individual customers and suppliers might disappear from the markets, and that raw material prices will again rise significantly.

Risk report

Risk management system

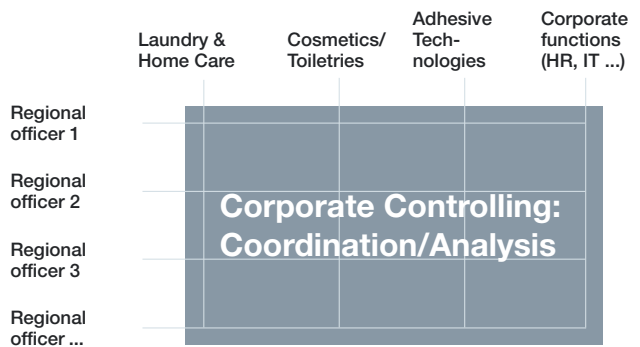
The **Risk Management System (RMS)** at Henkel is an integral component of the comprehensive planning, control and reporting regime practiced in the individual companies, in our business sectors and at the corporate level. It encompasses the systematic identification, evaluation, management, documentation, 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 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 1 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 basis by our affiliated companies, coordinated by our regional officers. The locally collated risks are then analyzed by the experts in the business sectors and corporate functions, classified in the appropriate management committees and finally assigned to a segment-specific risk inventory. Corporate Controlling is responsible for coordinating the overall process and also the aggregation and analysis of 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 2009 audit of the financial statements, the auditor examined the structure and function of our risk

management 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 Clause 289 (5) and Clause 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 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 activities and 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 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 access authorizations also exist with respect to 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 optimization and further development potential. Once identified, such potential is duly utilized.

Disclosure of major individual risks

The focus of this section is on the primary risks affecting our operations. We describe the opportunities open to us in the forecast section starting on [AR page 76](#) and also in the individual business sector summaries starting on [AR page 58](#).

Economic and sector-specific risks: Given the persistence of the current economic difficulties encountered in our sales markets, we consider ourselves to still be exposed to considerable economic risk. The fragile environment in the industrial sector, and particularly in the automotive manufacturing and components segments and the metal processing industry, carries with it risks and may lead to a decrease in sales volume. In the consumer goods sector, there is the risk of flattening market growth in conjunction with increasing competition. In this sector we are seeing further consolidation in the retail segment with correspond-

ing pressure on prices and conditions, accompanied by an increase in the market share attributable to own labels. Our focus therefore is on achieving a steady increase in our brand equity and developing further innovations. We see innovative products as enabling us to differentiate ourselves from the competition, a significant prerequisite for the continued success of our company.

Procurement market risks: Following the stabilization of the raw material markets in the course of the year under review, we see further risks in the procurement markets arising from unplanned price increases with respect to important raw materials and packaging materials. We are combating such risks through the proactive management of our vendor portfolio and utilization of our globally engaged, cross-divisional sourcing function. We enter into strategic partnerships with vendors of important and price-sensitive raw materials in order to minimize the concomitant price risks. We are also working hard within interdisciplinary teams (Research and Development, Supply Chain Management and Purchasing) in order to devise alternative formulations and different forms of packaging that will enable us to respond to unforeseen fluctuations in raw material prices. Due to the risk of non-availability of important raw materials, we operate a strict policy of independence from individual vendors so as to better secure the constant supply of the goods and services that we require. The basis for our successful risk management approach in this domain is a comprehensive procurement information system that ensures permanent transparency of 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 taken 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 basis 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 2009 – 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 unit. 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 conducting special recruitment campaigns. 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 attractive qualification and further training opportunities combined with performance-related compensation arrangements.

Financial risks: Due to the still tense financial situation, particularly in the automotive components sector and the building industry, our **credit risk** is higher than in the years prior to the crisis. We mitigate this exposure within the framework of our global credit policy through standardized procedures, a proactive credit management regime and the use of guarantees and credit 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 significantly 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. More detailed information with respect to our credit risk can be found in **AR** Note 42 starting on page 115.

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. Interest and inflation risks can be reduced by fully funding the pension obligations with investments in interest and inflation-sensitive fund assets that mirror the maturity structure of the pension obligations. Risks relating to trends in wages and salaries and life expectancies can be mitigated by inclusion of a return-enhancing portfolio in the financing mix expected to yield a surplus return over and above the refinancing costs of the pension obligations. In order to reduce and better manage risk, therefore, the pension obligations in the main countries involved are fully funded and managed on the basis of a twin-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 28 on pages 103 to 107.

Given the global alignment of our businesses, we are exposed to two types of **currency risk**. Transaction risks arise from exchange rate fluctuations causing changes in the value of future foreign currency cash flows. Transaction risks arising from our operating business are avoided primarily by the fact that we largely manufacture our products in those countries where they are sold. Residual transaction risks on the operating side are proactively managed by Corporate Treasury. Its remit includes the ongoing assessment of specific currency risk and the development of appropriate hedging strategies. Because we strictly limit our potential losses, any negative impact on profits is restricted. The transaction risks arising from major financial receivables and financial liabilities are extensively hedged. 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 sales and profits 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. The interest rates on the euro-denominated bonds issued by Henkel have been converted in full from fixed to floating using 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). A large proportion of the financing used for

Henkel of America, Inc. in US dollars has been converted into fixed-interest instruments through the use of interest rate swaps. When employing interest rate swaps in order to fix an interest rate, the net results of the swap are taken to 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. At Henkel, this risk can be regarded as very low due to the fact that we are able to call upon 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 level 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 42 on pages 112 to 118.

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 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.

Overall risk

At the time of writing this report, there are no identifiable risks relating to future developments that could endanger the existence either of the parent company or of the Group as a going concern. Our risk analysis indicates that the net assets, financial position and results of operations of the parent company and of the Group as a whole are not currently endangered either by individual risks or by the aggregated exposure arising from all risks combined. Moreover, such aggregation only takes into account the risk side of the equation without allowing for the positive effect that opportunities may bring. The system of risk categorization undertaken by Henkel clearly indicates that the most significant exposure currently relates to the impact of economic uncertainty on sales volumes and revenues, and the associated financial risks, to which we are responding with the countermeasures described.

Forecast

General economic development

Overview

The world economy is, in our view, likely to return to moderate growth in 2010 compared to the previous year. However, we do not anticipate a sustained upturn or any major growth dynamic.

There are still risks threatening economic development. The Dubai crisis at the beginning of December 2009 has shown how susceptible the financial markets are to the threat of credit defaults. Growth could also be inhibited by the expected slight increase in unemployment with corresponding effects on consumer demand, the credit-granting practice of the banks, already regarded as restrictive, and cessation of the worldwide state-sponsored financial stimulus programs. Moreover, it remains uncertain whether economic policy will be geared to reducing debt and combating potential inflation or to supporting economic strength with a sustained, expansive monetary and fiscal policy.

Regions

We expect North America to grow faster than Western Europe this year. Within Western Europe, export-oriented countries such as Germany may develop somewhat more dynamism than those states with more domestically aligned economies. Growth in the majority of the emerging nations is likely to outpace the increases experienced by the developed countries. This applies particularly to Asia and Latin America. The rate of expansion in Eastern Europe may be somewhat lower. Nevertheless, Russia is set to return to growth after a very weak 2009.

Raw material prices

In the event of further economic revival and expanding demand, raw material prices are likely to rise further. We expect the price of crude oil to increase versus prior year.

Currencies

We anticipate that the average exchange rate for the US dollar will remain stable in terms of the year-on-year comparison. We also expect the European currencies to stabilize at their present levels; and in the event of economic recovery in Western Europe, we see opportunities for further appreciation of the Eastern European currencies versus the euro.

Inflation

In our estimate, prices are likely to rise slightly in the course of 2010. Individual countries – such as Japan – will however continue to be exposed to the risk of deflation.

Interest rate policy

We anticipate that the central banks will gradually increase the currently very low short-term interest rates during the second half of the year. Overall, however, we expect the interest rate environment to remain benign.

Unemployment

In our view, unemployment is likely to increase slightly worldwide, despite political attempts to ease the situation such as the short-time working regulations introduced in Germany.

Sector development

Consumption and the retail sector

We expect private consumption to undergo no more than sluggish growth in 2010. The rate of increase is likely to be hampered by a mix of growing unemployment, the gradual discontinuation of governmental stimulus measures and the slowly rising interest rates expected for the second half of the year. With inflation rates somewhat higher, real incomes will also only increase to a moderate degree.

Growth of the retail sector is expected to be below average. In view of the high level of competition that prevails, there are likely to be persistent efforts on the part of retailers to improve their own market position. The possibility of further price-cutting campaigns cannot be excluded. Retail companies will also be endeavoring to strengthen the position of their own labels.

Industry

We expect that the incipient uptrend in the industrial sector will generally be maintained. However, significant differences are likely to remain between the individual segments and regions.

The automotive industry should record its first appreciable growth since 2007. After two very weak years, however, production levels are likely to remain low.

Structural problems will also continue to burden the sector, leading to further consolidation activity.

We are more confident about the development of the electronics industry. The recovery of the sector, which has been in evidence for some months now, can be expected to continue, albeit from a still low base. We anticipate that many companies will be investing more in new communication and information technologies after their reluctance over the last year, particularly as a certain degree of backlog demand has built up.

The metal processing industry will, in 2010, experience no more than sluggish expansion according to our estimates. Although investments will be made in new machinery and equipment for the purpose of rationalization or replacement, more extensive expenditures will be required before faster growth can be achieved. However, such investments will only be made in the prospect of a durable upturn, of which there is as yet little sign.

Growth in the packaging sector will, in our view, be below that of industry overall. Here, the expected low level of consumption growth is likely to exert a major influence, due to the fact that a substantial portion of demand for packaging comes from the food and semi-luxuries sectors. The industry-related packaging segment should, by our reckoning, experience a somewhat stronger increase in production levels.

Our forecast for the construction industry is for a slight increase in output. The financial packages of last year will still generate a positive effect on developments in 2010, and the building investments of industry should slightly increase as confidence improves. However, as the year progresses, the structural problems of both the residential and – due to increasingly scarce public funds – the publicly financed building sectors could come more to the forefront.

Opportunities


Accompanying the risks, we also see opportunities for our businesses:


We perceive the growth regions as holding great potential for us. These offer above-average growth possibilities from which we hope to benefit through our local business activities. This especially applies to the regions of Eastern Europe and Africa/Middle East, with Asia and Latin America also part of the group.

We regard our research and development activities as a great source of opportunity. We are developing a steady stream of innovative products and product solutions that

offer our customers added value. And we have a well filled pipeline of innovative products that we intend to launch onto the markets of all three business sectors this year.

Further opportunity lies in our strict focus on cost and our willingness to constantly scrutinize and analyze the status quo. From the results of such investigations we regularly find further potential for cost reductions, capacity adjustments and the elimination of marginal business activities and minor brands from our portfolio.

Opportunity is also likely to arise from the consistent pursuit and implementation of our three strategic priorities, as explained in some detail in the section entitled “Strategy and financial targets 2012” on  pages 34 to 36.

Further specific opportunities and risks are discussed in the individual business sector reports starting on  page 58.

Outlook for the Henkel Group in 2010

In our opinion, the mildly encouraging market conditions prevailing in the real economy and on the financial markets are still fragile. Consequently, we are unable to accurately gauge the overall economic situation and the further developments that are likely to take place.

Our guidance for the current financial year is based on the assumption of moderate economic growth overall. We do not expect to see a sustained upturn or any major growth dynamic.

It is against this background that our expectations for the development of the Henkel Group for 2010 should be considered:

We are confident of again outperforming our relevant markets in terms of organic sales growth (i.e. after adjusting for foreign exchange and acquisitions/divestments). The basis for this confidence is provided by our strong competitive position. This we have consolidated and further extended in recent years through our innovative strength, our strong brands, our leading market positions and the quality of our portfolio.

In recent years, we have introduced a number of measures on the operational side which we expect to generate positive momentum: for example, we anticipate additional contributions to our profitability to emanate from our “Global Excellence” efficiency enhancement program, the synergies arising from the integration of the National Starch businesses, and our strict cost discipline. All these factors

will positively influence the development of our adjusted¹⁾ operating profit (EBIT) and adjusted¹⁾ earnings per preferred share (EPS). We expect both metrics to undergo a noticeable improvement compared to the levels of 2009.

We detail further specific expectations in the business sector summaries starting on **AR** page 58.

Dividends

Our dividends and distribution policy is primarily aligned to earnings after deducting minority interests and adjusting for exceptional items. The objective is to maintain a payout ratio of around 25 percent.

Research and development

Irrespective of the current economic climate, the development of innovative products is an essential activity for our business. Consequently, we plan to invest around 2.8 percent of our gross sales in R&D.

Capital expenditures

We intend to invest around 350 million euros in the property, plant and equipment of our continuing operations during the current financial year. Major investments at the Laundry & Home Care and Cosmetics/Toiletries business sectors are to be channeled into production facilities for the manufacture of innovative, sustainable product lines, as well as into structural optimization measures. The 2010 investment focus in the case of the Adhesive Technologies business sector will be on further consolidation and rationalization of our adhesives production capability, and on production expansion in our growth markets. For structural reasons, a major portion of our capital spend on property, plant and equipment will be in Europe.

Acquisitions and financing

We do not intend to make any major acquisitions during fiscal 2010. Our primary aim is to reduce our net debt and therefore further strengthen our financial situation, one of our goals in this context being to achieve and maintain a credit rating in the "A flat" range.

Long-term sales and profits forecast:

Financial targets for 2012

In placing our focus on our three strategic priorities developed in 2008, and given the progress made to date in their achievement, we have laid the foundation for future profitable growth.

We expect that after 2010, during which a degree of moderate growth is likely, the world economy will – in the course of 2011 and 2012 – return to long-term growth of around 3 to 4 percent per year.

Based on this assumption, we will be aiming in the coming years to achieve an average organic growth rate of 3 to 5 percent above the rate of growth of the markets of relevance to us. Due to the expected savings emanating from the "Global Excellence" efficiency enhancement program, the synergies arising from the integration of the National Starch businesses and numerous additional measures geared to achieving our full business potential, we are confident that, by 2012, we will also have met our targets of an adjusted¹⁾ return on sales (EBIT) of 14 percent and an average annual increase in adjusted¹⁾ earnings per preferred share (EPS) in excess of 10 percent per year.

Financial targets for 2012

Annual organic sales growth (average):

3–5 percent

Adjusted¹⁾ return on sales (EBIT):

14 percent

Annual growth in adjusted¹⁾ earnings per preferred share (average):

> 10 percent

Subsequent events

There were no notifiable events between the balance sheet date (December 31, 2009) and the preparation date (January 29, 2010).

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

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Consolidated statement of income

in million euros	Note	2008	%	2009	%	Change
Sales	1	14,131	100.0	13,573	100.0	-3.9 %
Cost of sales ¹⁾	2	-8,190	-58.0	-7,411	-54.6	-9.5 %
Gross profit		5,941	42.0	6,162	45.4	3.7 %
Marketing, selling and distribution expenses ¹⁾	3	-3,993	-28.3	-3,926	-28.9	-1.7 %
Research and development expenses ¹⁾	4	-429	-3.0	-396	-2.9	-7.7 %
Administrative expenses ¹⁾	5	-825	-5.8	-735	-5.4	-10.9 %
Other operating income	6	160	1.1	140	1.0	-12.5 %
Other operating charges	7	-75	-0.5	-165	-1.2	>100.0 %
Operating profit (EBIT)		779	5.5	1,080	8.0	38.6 %
Investment result		1,123	7.9	-4	0.0	>100.0 %
Net interest		-275	-1.9	-191	-1.4	-30.5 %
Financial result	8	848	6.0	-195	-1.4	>100.0 %
Earnings before tax		1,627	11.5	885	6.6	-45.6 %
Taxes on income	9	-394	-2.8	-257	-1.9	-34.8 %
Net earnings		1,233	8.7	628	4.7	-49.1 %
– Attributable to minority shareholders	10	12	0.1	26	0.2	>100.0 %
– Attributable to shareholders of Henkel AG & Co. KGaA		1,221	8.6	602	4.5	-50.7 %

¹⁾ Restructuring charges in 2009: 159 million euros (2008: 663 million euros), of which 70 million euros (2008: 373 million euros) cost of sales, 52 million euros (2008: 111 million euros) marketing, selling and distribution expenses, 13 million euros (2008: 52 million euros) research and development expenses, 24 million euros (2008: 127 million euros) administrative expenses

Earnings per share (basic)

in euros	Note	2008	2009	Change
Ordinary shares	46	2.81	1.38	-50.9 %
Non-voting preferred shares	46	2.83	1.40	-50.5 %

Earnings per share (diluted)

in euros	Note	2008	2009	Change
Ordinary shares	46	2.79	1.38	-50.5 %
Non-voting preferred shares	46	2.81	1.40	-50.1 %

Additional voluntary information

in million euros	2008	2009	
EBIT (as reported)	779	1,080	
One-time gains	-30	-9	
One-time charges ¹⁾	48	134	
Restructuring charges ²⁾	663	159	
Adjusted EBIT	1,460³⁾	1,364	
Adjusted return on sales	in %	10.3	10.0
Gain from sale of investment in Ecolab Inc.	1,042	-	
Adjusted financial result	-194	-195	
Adjusted net earnings after minority interests	945	822	
Adjusted earnings per preferred share	in euros	2.19³⁾	1.91

¹⁾ 2009 figure includes 8 million euros (2008: 36 million euros) in charges from the integration of the National Starch businesses

²⁾ 2009 figure includes 0 million euros from "Global Excellence" (2008: 504 million euros), 44 million euros from the integration of the National Starch businesses (2008: 142 million euros), 59 million euros from the reorganization of the Adhesive Technologies businesses in Europe (2008: 0 million euros) and 56 million euros from ordinary activities (2008: 17 million euros)

³⁾ Adjusted EBIT 1,495 million euros and adjusted earnings per preferred share 2.26 euros, both before amortization of intangible assets from the acquisition of the National Starch businesses

Consolidated balance sheet

Assets

in million euros	Note	2008 ¹⁾	%	2009	%
Intangible assets	11	8,491	52.5	8,218	52.0
Property, plant and equipment	12	2,361	14.6	2,248	14.2
Financial assets	13	24	0.1	20	0.1
Other financial assets	14	172	1.1	340	2.2
Income tax refund claims		3	–	2	–
Other non-current assets	15	4	–	12	0.1
Deferred taxes	16	305	1.9	322	2.0
Non-current assets		11,360	70.2	11,162	70.6
Inventories	17	1,482	9.2	1,218	7.7
Trade accounts receivable	18	1,847	11.4	1,721	10.9
Other financial assets	19	575	3.6	214	1.3
Other current assets	20	256	1.6	224	1.4
Income tax refund claims		202	1.2	139	0.9
Liquid funds/Marketable securities	21	338	2.1	1,110	7.0
Assets held for sale	22	113	0.7	30	0.2
Current assets		4,813	29.8	4,656	29.4
Total assets		16,173	100.0	15,818	100.0

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses, see [AR](#) page 87 et seq.

Shareholders' equity and liabilities

in million euros	Note	2008 ¹⁾	%	2009	%
Subscribed capital	23	438	2.7	438	2.8
Capital reserve	24	652	4.0	652	4.1
Retained earnings	25	6,805	42.0	6,908	43.7
Gains and losses recognized in equity	26	–1,411	–8.7	–1,524	–9.6
Equity excluding minority interests		6,484	40.0	6,474	41.0
Minority interests	27	51	0.3	70	0.4
Equity including minority interests		6,535	40.3	6,544	41.4
Pensions and similar obligations	28	833	5.2	867	5.5
Long-term income tax provisions	29	177	1.1	152	1.0
Other long-term provisions	29	336	2.1	241	1.5
Long-term borrowings	30	2,402	14.9	3,426	21.7
Non-current financial liabilities	31	77	0.5	88	0.5
Other non-current liabilities	32	9	0.1	20	0.1
Deferred taxes	33	413	2.5	367	2.3
Non-current liabilities		4,247	26.4	5,161	32.6
Current income tax provisions	34	343	2.1	224	1.4
Other short-term provisions	34	964	5.9	938	5.9
Short-term borrowings	35	1,817	11.2	660	4.2
Trade accounts payable	36	1,678	10.4	1,885	11.9
Current financial liabilities	37	272	1.7	145	0.9
Other current liabilities	38	306	1.9	251	1.6
Income tax liabilities		11	0.1	10	0.1
Current liabilities		5,391	33.3	4,113	26.0
Total equity and liabilities		16,173	100.0	15,818	100.0

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses, see [AR](#) page 87 et seq.

Consolidated cash flow statement

See Note 47

in million euros	2008	2009
Operating profit (EBIT)	779	1,080
Income taxes paid	-412	-305
Amortization/depreciation/write-ups of non-current assets (excluding financial assets)	546	588
Net gains/losses on disposal of non-current assets (excluding financial assets)	3	12
Change in inventories	-78	276
Change in trade accounts receivable	108	136
Change in other receivables and miscellaneous assets	60	-15
Change in trade accounts payable	-36	208
Change in other liabilities and provisions	195	-61
Cash flow from operating activities	1,165	1,919
Purchase of intangible assets	-20	-28
Purchase of property, plant and equipment	-473	-344
Purchase of financial assets/acquisitions	-3,708	-8 ¹⁾
Proceeds on disposal of subsidiaries and business units	57	90
Proceeds on disposal of other non-current assets	1,752	51
Realization of net investment hedge	119	-
Cash flow from investing activities/acquisitions	-2,273	-239
Henkel AG & Co. KGaA dividends	-224	-224
Subsidiary company dividends (to other shareholders)	-8	-12
Interest received	90	70
Dividends received	22	-
Interest paid	-345	-206
<i>Dividends and interest paid and received</i>	<i>-465</i>	<i>-372</i>
Change in borrowings	757	-152
Allocation to pension funds	-262	-389
Other financing transactions	-10	8
Cash flow from financing activities	20	-905
Change in cash and cash equivalents due to movements in funds	-1,088	775
Change in cash and cash equivalents due to exchange rate movements	-14	-3
Change in liquid funds and marketable securities	-1,102	772
Liquid funds and marketable securities at January 1	1,440	338
Liquid funds and marketable securities at December 31	338	1,110

¹⁾ Of which: 103 million euros proceeds from the cash pool settlement from acquisition of the National Starch businesses

Additional voluntary information

Computation of free cash flow

in million euros	2008	2009
Cash flow from operating activities	1,165	1,919
Purchase of intangible assets	-20	-28
Purchase of property, plant and equipment	-473	-344
Proceeds on disposals of other non-current assets (excluding proceeds from sale of investment in Ecolab Inc.)	40	51
Net interest paid	-255	-136
Free cash flow	457	1,462

Statement of comprehensive income

in million euros	2008	2009
Net earnings	1,233	628
Foreign exchange effects	103	-104
Financial instruments	-100	-11
Actuarial gains/losses	-186	-285
Share of net profits of associates		
Effects arising from the current financial year	33	-
Elimination of cumulative foreign exchange effects since initial inclusion	-16	-
Other comprehensive income	-166	-400
Total comprehensive income for the period	1,067	228
– Attributable to minority shareholders	16	24
– Attributable to shareholders of Henkel AG & Co. KGaA	1,051	204

Statement of changes in equity

See Notes 23 to 27

in million euros

	Ordinary shares	Preferred shares	Treasury stock	Capital reserve	Retained earnings	Gains and losses recognized in equity		Minority interests	Total
						Translation differences	Financial instruments		
At January 1, 2008	260	178	-119	652	6,082	-1,298	-112	63	5,706
Net earnings	-	-	-	-	1,221	-	-	12	1,233
Foreign exchange effects	-	-	-	-	-	99	-	4	103
Financial instruments	-	-	-	-	-	-	-100	-	-100
Actuarial gains (+) and losses (-)	-	-	-	-	-186	-	-	-	-186
Investments in associates	-	-	-	-	17	-	-	-	17
Total comprehensive income for the period	-	-	-	-	1,052	99	-100	16	1,067
Distributions	-	-	-	-	-224	-	-	-8	-232
Sale of treasury stock	-	-	4	-	1	-	-	-	5
Other changes in equity	-	-	-	-	9	-	-	-20	-11
At December 31, 2008/ January 1, 2009	260	178	-115	652	6,920	-1,199	-212	51	6,535
Net earnings	-	-	-	-	602	-	-	26	628
Foreign exchange effects	-	-	-	-	-	-102	-	-2	-104
Financial instruments	-	-	-	-	-	-	-11	-	-11
Actuarial gains (+) and losses (-)	-	-	-	-	-285	-	-	-	-285
Total comprehensive income for the period	-	-	-	-	317	-102	-11	24	228
Distributions	-	-	-	-	-224	-	-	-12	-236
Sale of treasury stock	-	-	6	-	4	-	-	-	10
Other changes in equity	-	-	-	-	-	-	-	7	7
At December 31, 2009	260	178	-109	652	7,017	-1,301	-223	70	6,544

Group segment report by business sector¹⁾

See Note 45

in million euros	Laundry & Home Care	Cos- metics/ Toiletries	Adhesives for Crafts- men and Consumers	Industrial Adhesives	Total Adhesive Tech- nologies	Operating business sectors total	Corporate	Henkel
Sales 2009	4,129	3,010	1,738	4,486	6,224	13,363	210	13,573
Change from previous year	-1.0%	-0.2%	-16.9%	-2.6%	-7.1%	-3.8%	-	-3.9%
Proportion of Group sales	30%	22%	13%	33%	46%	98%	2%	100%
Sales 2008	4,172	3,016	2,092	4,608	6,700	13,888	243	14,131
EBITDA 2009	622	433	200	468	668	1,723	-55	1,668
EBITDA 2008	551	427	281	593	874	1,852	-527	1,325
Change from previous year	12.8%	1.6%	-29.0%	-21.1%	-23.6%	-7.0%	-	25.8%
Return on sales (EBITDA) 2009	15.1 %	14.4 %	11.5 %	10.4 %	10.7 %	12.9 %	-	12.3 %
Return on sales (EBITDA) 2008	13.2%	14.1%	13.5%	12.9%	13.0%	13.3%	-	9.4%
Amortization/depreciation and write-ups of trademark rights, other rights and property, plant and equipment 2009	121	46	96	282	378	545	43	588
of which impairment losses 2009	10	1	32	105	137 ⁵⁾	148	27	175
of which write-ups 2009	1	-	-	2	2	3	-	3
Amortization/depreciation and write-ups of trademark rights, other rights and property, plant and equipment 2008	112	51	48	168	216	379	167	546
of which impairment losses 2008	58	35	4	33	37	130	23	153
of which write-ups 2008	-	-	-	-	-	-	-	-
EBIT 2009	501	387	104	186	290⁶⁾	1,178	-98⁴⁾	1,080
EBIT 2008	439	376	233	425	658	1,473	-694	779
Change from previous year	14.0%	3.1%	-55.3%	-56.3%	-55.9%	-20.0%	-	38.6%
Return on sales (EBIT) 2009	12.1 %	12.9 %	6.0 %	4.2 %	4.7 %	8.8 %	-	8.0 %
Return on sales (EBIT) 2008	10.5%	12.5%	11.1%	9.2%	9.8%	10.6%	-	5.5%
Capital employed 2009²⁾	2,562	2,125	1,161	5,874	7,035	11,722	-181	11,541
Capital employed 2008 ²⁾	2,604	2,151	1,299	5,291	6,590	11,345	-24	11,321
Change from previous year	-1.6%	-1.2%	-10.7%	11.0%	6.8%	3.3%	-	1.9%
Return on capital employed (ROCE) 2009	19.6 %	18.2 %	10.4 %	3.7 %	4.8 %	10.4 %	-	9.8 %
Return on capital employed (ROCE) 2008	16.9%	17.5%	17.9%	8.0%	10.0%	13.0%	-	6.9%
Capital expenditures (excl. financial assets) 2009	156	43	40	153	193	392	23	415
Capital expenditures (excl. financial assets) 2008	169	103	137	3,624	3,761	4,033	36	4,069
Operating assets 2009³⁾	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 2009³⁾	2,715	1,923	1,095	5,594	6,689	11,327	-181	11,146
Operating assets 2008 ³⁾	3,893	2,763	1,641	6,439	8,080	14,736	398	15,134
Operating liabilities 2008	1,154	819	423	1,451	1,874	3,847	422	4,269
Net operating assets employed 2008 ³⁾	2,739	1,944	1,218	4,988	6,206	10,889	-24	10,865

¹⁾ Calculated on the basis of units of 1,000 euros²⁾ Including goodwill at cost prior to any accumulated amortization in accordance with IFRS 3.79 (b)³⁾ Including goodwill at net book value⁴⁾ Including restructuring charges for the National Starch businesses of 44 million euros; the ongoing restructuring costs are charged to the operating business sectors⁵⁾ Including 46 million euros of goodwill impairment losses; see other operating charges⁶⁾ Including 59 million euros from the reorganization of the Adhesive Technologies businesses in Europe

Group segment report by region¹⁾

See Note 45

in million euros

	Europe/ Africa/ Middle East	North America (USA, Canada)	Latin America	Asia-/ Pacific	Regions total	Corporate	Henkel
Sales by location of company 2009	8,335	2,546	825	1,657	13,363	210	13,573
Change from previous year	-6.0%	-5.7%	5.8%	7.3%	-3.8%	-	-3.9%
Proportion of Group sales	61%	19%	6%	12%	98%	2%	100%
Sales by location of company 2008	8,863	2,700	780	1,545	13,888	243	14,131
Sales by location of customer 2009	8,267	2,512	833	1,751	13,363	210	13,573
Change from previous year	-6.0%	-5.8%	5.3%	7.3%	-3.8%	-	-3.9%
Proportion of Group sales	61%	18%	6%	13%	98%	2%	100%
Sales by location of customer 2008	8,798	2,668	791	1,631	13,888	243	14,131
EBITDA 2009	1,083	320	92	228	1,723	-55	1,668
EBITDA 2008 ⁴⁾	1,228	365	79	180	1,852	-527	1,325
Change from previous year	-11.8%	-12.4%	17.1%	26.4%	-7.0%	-	25.8%
Return on sales (EBITDA) 2009	13.0%	12.6%	11.2%	13.7%	12.9%	-	12.3%
Return on sales (EBITDA) 2008 ⁴⁾	13.9%	13.5%	10.1%	11.7%	13.3%	-	9.4%
EBIT 2009	838	127	74	139	1,178	-98³⁾	1,080
EBIT 2008 ⁴⁾	1,006	276	59	132	1,473	-694	779
Change from previous year	-16.7%	-54.1%	25.1%	5.6%	-20.0%	-	38.6%
Return on sales (EBIT) 2009	10.1%	5.0%	9.0%	8.4%	8.8%	-	8.0%
Return on sales (EBIT) 2008 ⁴⁾	11.4%	10.2%	7.6%	8.5%	10.6%	-	5.5%
Return on capital employed (ROCE) 2009	21.2%	2.5%	14.8%	11.1%	10.4%	-	9.8%
Return on capital employed (ROCE) 2008 ⁴⁾	24.9%	5.2%	12.1%	8.7%	13.0%	-	6.9%
Operating assets 2009²⁾	5,749	6,444	652	1,975	14,820	357	15,177
Operating liabilities 2009	2,310	485	178	520	3,493	538	4,031
Net operating assets employed 2009²⁾	3,439	5,959	474	1,455	11,327	-181	11,146
Operating assets 2008 ²⁾	5,963	6,077	628	2,068	14,736	398	15,134
Operating liabilities 2008	2,480	597	160	610	3,847	422	4,269
Net operating assets employed 2008 ²⁾	3,483	5,480	468	1,458	10,889	-24	10,865

¹⁾ Calculated on the basis of units of 1,000 euros²⁾ Including goodwill at net book value³⁾ Including restructuring charges for the National Starch businesses of 44 million euros; the ongoing restructuring costs are charged to the regions⁴⁾ From 2009, corporate charges incurred with respect to regional business management are to be allocated to the individual regions; the prior-year figures have been adjusted accordingly, which means the 2008 earnings result for the Europe/Africa/Middle East region is 44 million euros higher, while that of the other regions is lower: by 23 million euros for North America, by 7 million euros for Latin America and by 14 million euros for Asia-Pacific

In the operating business sectors, affiliated companies located in Germany, including the parent company, achieved sales in 2009 of 1,909 million euros (2008: 2,020 million euros) and reported intangible assets and property, plant and equipment at December 31, 2009 of 1,087 million euros (2008: 1,123 million euros).

The affiliated companies domiciled in North America reported intangible assets, property, plant and equipment at December 31, 2009 of 5,457 million euros (2008: 5,793 million euros).

Consolidated changes in intangible assets, property, plant and equipment and financial assets

Cost

in million euros	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 2008	5,424	5,337	546	11,307
Changes in the Group/Acquisitions	3,321 ²⁾	342	3	3,666
Additions	20	473	66	559
Disposals ¹⁾	-41	-389	-662	-1,092
Reclassifications	6	-6	-	-
Translation differences	297	-44	78	331
At December 31, 2008/January 1, 2009	9,027²⁾	5,713	31	14,771
Changes in the Group/Acquisitions	39	3	-4	38
Additions	28	344	-	372
Disposals ¹⁾	-68	-410	-	-478
Reclassifications	10	-10	-	-
Translation differences	-139	-27	-1	-167
At December 31, 2009	8,897	5,613	26	14,536
¹⁾ of which assets held for sale 2009	-41	-46	-	-87
¹⁾ of which assets held for sale 2008	-1	-188	-12	-201

²⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses, see [AR](#) page 87 et seq.

Accumulated amortization/depreciation

in million euros	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 2008	484	3,260	18	3,762
Changes in the Group/Acquisitions	-	-4	-	-4
Write-ups	-	-	-	-
Scheduled amortization/depreciation	95	298	-	393
Impairment losses	4	149	3	156
Disposals ¹⁾	-39	-330	-14	-383
Reclassifications	-	-	-	-
Translation differences	-8	-21	-	-29
At December 31, 2008/January 1, 2009	536	3,352	7	3,895
Changes in the Group/Acquisitions	-	-	-1	-1
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	679	3,365	6	4,050
¹⁾ of which assets held for sale 2009	-37	-32	-	-69
¹⁾ of which assets held for sale 2008	-	-169	-8	-177

The impairment losses are allocated to the relevant functions.

Net book value

in million euros	Intangible assets	Property, plant and equipment	Financial assets	Total
At December 31, 2009	8,218	2,248	20	10,486
At December 31, 2008	8,491 ¹⁾	2,361	24	10,876

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

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.

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 29, 2010, the Management Board of Henkel Management AG – 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 or in the consolidated statement of income and shown separately in the Notes.

Scope of consolidation

In addition to Henkel AG & Co. KGaA, the consolidated financial statements at December 31, 2009 include nine domestic and 202 foreign companies in which Henkel AG & Co. KGaA has the power to govern the financial and operating policies, 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.

The composition of the Group has undergone only minor change in the course of 2009 compared to the previous year. Seven companies have been included in the consolidated Group figures for the first time, 26 companies were merged and 14 companies are no longer consolidated.

Acquisition of the National Starch businesses

On April 3, 2008, we acquired the Adhesives and Electronic Materials divisions from the National Starch & Chemical Company following the takeover of the latter by Akzo Nobel. The purchase price according to the contract dated August 13, 2007, a so-called back-to-back agreement, was 3.7 billion euros (2.7 billion pounds sterling).

We valued and converted the acquisition of the National Starch businesses using the closing rates of the date of acquisition.

The allocation of the acquisition costs to the acquired assets and liabilities (purchase price allocation) has now been completed based on IFRS 3 “Business Combinations.” The excess of the acquisition costs over the net book value of the acquired assets and liabilities is 3,002 million euros.

The purchase price allocation process serves to assign the acquisition costs to the fair values of the assets, liabilities and contingent liabilities. Also taken into account in this regard are the fair values of previously unrecognized intangible assets assignable to the acquired activities, such as customer relationships, technologies and brands. It should be noted that purchase price allocation leads to the recognition of hidden reserves and hidden charges in the assets, liabilities and contingent liabilities of the acquired businesses, and thus to additional expenses in the form of accruing depreciation and amortization charges against income.

The purchase price and thus the goodwill figure calculated following purchase price allocation primarily represent anticipated synergies arising from the integration of the National Starch businesses within the Henkel organization.

The table overleaf shows the reconciliation between the purchase price and the goodwill figure after deduction of the book values of the acquired assets and liabilities.

In November 2007, we entered into a cash flow hedge to mitigate the currency risk attached to the purchase price payable for the National Starch businesses. Settlement of this transaction in April 2008 gave rise to a fair value of –332 million euros. In compliance with the requirements of International Accounting Standard (IAS) 39 “Financial Instruments: Recognition and Measurement,” we have recognized this amount as a deduction in Group equity and have also deducted it from the purchase price as of April 3, 2008 in calculating the excess of the acquisition costs over the net book value of the acquired assets and liabilities.

The book values of the acquired assets and liabilities correspond to the figures in the audited opening balance sheets relating to the acquired activities as of April 3, 2008, to which the accounting principles and methods of the Henkel Group were applied:

Reconciliation of purchase price with goodwill as of April 3, 2008

in million euros	2008
Purchase price	3,676
Purchase price adjustment based on provisions of the sale agreement	272
Fair value of cash flow hedge	-332
Adjusted purchase price	3,616
Incidental acquisition costs	26
Cost of acquisition of the National Starch businesses	3,642
Book values of the acquired assets and liabilities	-640
Provisional difference	3,002
Customer relationships	289
Technologies	215
Trademarks and brands	98
Other intangible assets	61
Other assets and liabilities	3
Deferred taxes	-227
Goodwill	2,563

In the course of finalization of the purchase price allocation in 2009, the goodwill figure rose by 99 million euros.

Other acquisitions and divestments

In April 2009, we acquired the remaining minority shares in Henkel Alki, Tunisia. The purchase price was 8 million euros. In September 2009, we acquired the minority shares in National Organic Kimyasaal in Turkey and merged this company with Türk Henkel. The purchase price was 16 million euros. In November 2009, following the successive purchase of further shares, we acquired Henkel Huawei in China, raising our participating interest to 79.33 percent. The purchase price was 4 million euros.

In May 2009, we sold the North American consumer adhesives business under the Duck brand. The divestment proceeds amounted to 79 million euros.

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 by offsetting the carrying amount of the parent company's investment in the subsidiary companies against their assets and liabilities. In subsequent years, the carrying amount of the parent company's 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 IAS 21 "The Effects of Changes in Foreign Exchange Rates." The functional currency is the main currency in which the foreign company 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 translation. The differences arising from using average rather than closing rates are taken to equity and shown as gains or losses recognized in equity, without affecting net earnings.

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

	ISO code	Average exchange rate		Closing exchange rate	
		2008	2009	2008	2009
British pounds	GBP	0.80	0.89	0.9525	0.8881
Chinese renminbi yuan	CNY	10.23	9.53	9.4956	9.8350
Japanese yen	JPY	152.56	130.33	126.1400	133.1600
Russian ruble	RUB	36.40	44.15	41.2830	43.1540
US dollars	USD	1.47	1.39	1.3917	1.4406

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 (Note 9), intangible assets (Note 11), pensions and similar obligations (Note 28), derivatives and other financial instruments (Note 42) and share-based payment plans (Note 43).

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 January 2008, the International Accounting Standards Board (IASB) issued a revised version of IFRS 3 “Business Combinations” and of IAS 27 “Consolidated and Separate Financial Statements.” IFRS 3 (2008) sets out new rulings as regards the application of the purchase method in the case of business combinations. Significant amendments

relate to the measurement of non-controlling interests, the accounting treatment of step acquisitions, and the treatment of contingent considerations and acquisition-related costs that are to be expensed at the time they arise. Significant amendments to IAS 27 (2008) relate to the reporting of transactions in respect of which the company retains control, and transactions where control is ceded. Transactions that do not lead to a loss of control must be reported directly as equity transactions. Residual interests are to be measured at fair value at the time of loss of control. The amendments are applicable for financial years beginning after June 30, 2009, with early application of both revised standards permitted.

» In July 2008, the IASB issued amendments relating to IAS 39 “Financial Instruments: Recognition and Measurement – Eligible Hedged Items.” The amendments clarify the application of hedge accounting to the inflation component of financial instruments and to option contracts when they are used as a hedging instrument. The amendments are applicable for financial years beginning after June 30, 2009, with early application permitted.

» In October 2009, the IASB issued amendments to IAS 32 “Financial Instruments: Presentation.” The amendments stipulate the accounting procedure with respect to the issuers of stock rights, options and warrants for acquiring a fixed number of equity instruments that are denominated in a currency other than the functional currency of the issuer. Such cases were hitherto reported as derivative liabilities. Stock 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 early application permitted.

- » IFRIC 12 “Service Concession Arrangements” addresses the issue of how companies that offer public services commissioned by local authorities are to report the rights and obligations resulting from contractual agreements. The interpretation is applicable for financial years beginning after March 29, 2009, with early application permitted.
- » IFRIC 15 “Agreements for the Construction of Real Estate” addresses the accounting practice used by companies that develop land and, in this capacity, sell buildings such as houses and apartments before construction is complete. The interpretation clarifies in particular when agreements for the construction of real estate fall under the provisions of IAS 11 “Construction Contracts” or IAS 18 “Revenue.” The interpretation is applicable for financial years beginning after December 31, 2009 with early application permitted.
- » IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” clarifies that reporting of hedging instruments is only possible between the functional currency of the foreign operation and the functional currency of the parent entity. The hedged item can be the amount of net assets of the foreign operation disclosed in the consolidated financial statements. The hedging instrument can then be held by any Group entity (except those of which the foreign currency risks are hedged). On disposal of the foreign operation, the changes in value of the hedging instrument recognized in equity and the foreign exchange gains or losses of the foreign operation recognized in the currency reserve are to be recycled from other comprehensive income into the income statement. IFRIC 16 is applicable for financial years beginning after June 30, 2009, with early application permitted.
- » IFRIC 17 “Distributions of Non-cash Assets to Owners” clarifies how non-cash assets distributed to owners of a com-

pany are to be reported. The amendments are applicable for the beginning of the first financial year after October 31, 2009, with early application permitted.

- » IFRIC 18 “Transfers of Assets from Customers” clarifies how the transfer of assets or cash for the construction or acquisition of property, plant or equipment from a customer is to be reported. The amendments are applicable for the beginning of the first financial year after October 31, 2009 at the latest.

All these standards and interpretations will be applied by Henkel from fiscal 2010 or later. We expect the future application of amendments to IAS 32, 39 and of IFRIC 12, 15, 16, 17 and 18 not to have a significant impact on the presentation of the financial statements.

In fiscal 2009, the IASB issued the following standards or interpretations of and amendments to standards of relevance to Henkel which still have to be adopted into EU law (endorsement mechanism) before they become applicable:

- » Amendment to IFRS 2 “Share-based Payment”
- » IFRS 9 “Financial Instruments”
- » Amendments to IAS 24 “Related Party Disclosures”
- » Collective standard “Annual Improvements to IFRSs”
- » Amendment to IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”
- » IFRIC 19 “Extinguishing Financial Liabilities with Equity Instruments”

These interpretations and standards will be applied by Henkel from fiscal 2010 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 statement of income

(1) Sales and principles of income realization

Sales comprise sales of goods and services less sales deductions. 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 reports on [AR](#) pages 84 and 85.

(2) 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 appropriate amount of wear and tear on non-current assets.

(3) Marketing, selling and distribution expenses

In addition to marketing organization and distribution costs, this item comprises mainly 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.

(4) 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 individual 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.

(5) 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.

(6) Other operating income

Other operating income in million euros	2008	2009
Gains on disposal of non-current assets	14	10
Profits on sale of businesses	8	–
Income from release of provisions	44	38
Income from release of valuation allowances for doubtful debts	6	2
Write-ups of non-current assets	–	3
Sundry operating income	88 ¹⁾	87
Total	160	140

¹⁾ Includes a net loss on translation of operating receivables and payables in foreign currency of –17 million euros and a net profit on the remeasurement to fair value of operating derivative hedge transactions of 19 million euros

Effective fiscal 2009, the net loss on translation of operating receivables and liabilities in foreign currency and the net gain on measurement to fair value of operative derivative hedging instruments are reported in the financial result, as currency management is controlled centrally by Corporate Treasury.

Profits on sale of businesses recognized in 2008 related to the sale of our water treatment business. Sundry operating income refers to a number of individual transactions from our operating business, for example payments on insurance claims, grants and subsidies, bonus credits and similar income.

(7) Other operating charges

Other operating charges in million euros	2008	2009
Write-downs of miscellaneous assets	4	–
Losses on disposal of non-current assets	17	22
Goodwill impairment losses	–	46
Sundry operating expenses	54	97
Total	75	165

Sundry operating expenses relate to a number of individual transactions from our operating business, for example contract termination costs, severance payments and similar charges.

(8) Financial result

Financial result in million euros	2008	2009
Share of net profits of associates	83	–
Gain from the sale of investment in Ecolab Inc., USA	1,042	–
Net result from other investments	–2	–4
Net interest	–275	–191
Total	848	–195

Net result from other investments

in million euros	2008	2009
Income from other investments	3	1
Write-downs of shares in non-consolidated affiliated companies and investments at amortized cost	–3	–
Other	–2	–5
Total	–2	–4

Net interest

in million euros	2008	2009
Interest and similar income from third parties	54	47
Other financial income	37	23
Total interest income	91	70
Interest charges payable to third parties	–306	–162
Other financial charges	–47	–54
Interest expense for pension provisions less expected return on plan assets ¹⁾	–13	–45
Total interest expense	–366	–261
Total	–275	–191

¹⁾ Interest expense of 192 million euros and expected interest income of 147 million euros (2008: interest expense of 179 million euros and expected interest income of 166 million euros)

Included in the total amount is the net result from the translation of accounts receivable and payable in the amount of 22 million euros (2008: –101 million euros) and the net result from the measurement to fair value of derivative hedging instruments in the amount of –57 million euros (2008: 78 million euros).

(9) Taxes on income**Earnings before taxes on income and analysis of taxes**

in million euros	2008	2009
Earnings before tax	1,627	885
Current taxes	570	239
Deferred taxes	–176	18
Taxes on income	394	257

Main components of tax expense and income

in million euros	2008	2009
Current tax expense/income in the reporting year	583	259
Current tax adjustments for prior years	–13	–20
Deferred tax expense/income from temporary differences	–144	47
Deferred tax expense/income from changes in tax rates	5	3
Increase/decrease in valuation allowances on deferred tax assets	8	–13

In accordance with IAS 12 “Income Taxes,” 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, and with respect to consolidation procedures affecting earnings. Deferred tax assets with respect to unused tax losses and tax credits are measured insofar as it is likely that sufficient taxable income will be generated in future to realize the corresponding benefit.

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 an overall tax rate of 31 percent.

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 recognized deferred tax assets and deferred tax liabilities related to the following items and unused tax losses:

Allocation of deferred taxes

in million euros

	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008 ¹⁾	Dec. 31, 2009
Intangible assets	127	144	665	643
Property, plant and equipment	37	24	86	84
Financial assets	69	29	4	6
Inventories	29	36	8	4
Other receivables and miscellaneous assets	62	56	107	94
Special tax-allowable items	9	–	57	53
Provisions	409	446	53	6
Liabilities	153	104	16	14
Tax credits	2	14	–	–
Unused tax losses	51	68	–	–
	948	921	996	904
Amounts netted	–583	–537	–583	–537
Valuation allowances	–60	–62	–	–
Balance sheet figures	305	322	413	367

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

The deferred tax assets amounting to 446 million euros (2008: 409 million euros) reported under provisions result primarily from recognition and measurement differences with respect to pensions and similar obligations.

The deferred tax liabilities amounting to 643 million euros (2008: 665 million euros) reported under intangible assets can be attributed chiefly to business combinations such as the acquisition of the National Starch businesses in 2008.

The valuation allowances on deferred tax assets of 62 million euros (2008: 60 million euros) are in respect of temporary differences between the balance sheet valuation of an asset or liability and its tax base, and are based on a reassessment of future utilization.

Deferred taxes have not been recognized with respect to unused tax losses of 347 million euros (2008: 358 million euros), as it is not sufficiently probable that taxable profit will be available against which they may be utilized.

Deferred taxes of 14 million euros (2008: 2 million euros) have been recognized with respect to tax credits.

A deferred tax income of 78 million euros was recognized directly in equity (2008: tax expense of 55 million euros). This deferred tax income results in the amount of 70 million euros from actuarial losses with respect to pension obligations of 355 million euros, and in the amount of 8 million euros from losses from cash flow hedges of 19 million euros.

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 amounting to 11 million euros (2008: 9 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 profits on the disposal of assets.

Expiry dates of unused tax losses and tax credits

	Unused tax losses		Tax credits	
	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009
Must be utilized within				
1 year	37	36	–	–
2 years	32	63	–	–
3 years	36	39	1	–
more than 3 years	203	310	1	14
May be carried forward without restriction	268	169	–	–
Total	576	617	2	14

The individual company reconciliations – 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. The estimated tax charge, based on the tax rate applicable to Henkel AG & Co. KGaA of 31 percent, is reconciled to the tax charge disclosed.

Calculation of the tax charge disclosed

in million euros	2008	2009
Earnings before taxes on income	1,627	885
Tax rate (including trade tax) on income of Henkel AG & Co. KGaA	31 %	31 %
Estimated tax charge	504	274
Tax increases/reductions due to differences between local tax rates and the hypothetical tax rate	-26	-70
Tax increases/reductions for prior years	-61	7
Tax increases/reductions due to changes in tax rates	5	3
Tax increases/reductions due to losses in respect of which deferred taxes have not been recognized	10	-9
Effects of different tax rates on net result from investments (at-equity investments)	-25	-
Tax increases/reductions due to tax-free income and other items	-22	-22
Tax increases/reductions due to non-deductible expenses and other items	52	74
of which		
Non-deductible write-down of intangible assets	-	14
Trade tax additions	10	13
Non-deductible withholding tax	14	14
Other non-deductible expenses	28	33
Tax effect of sale of Ecolab shares	-43	-
Tax charge disclosed	394	257
Effective tax rate	24.22 %	29.04 %

The increase in the effective tax rate in 2009 to 29.04 percent (2008: 24.22 percent) can be attributed inter alia to the non-deductible write-down of intangible assets and to the absence of the effect resulting from the at-equity stake in Ecolab (in 2008: -1.5 percentage points). The normalized effective tax rate for 2009 is 27.5 percent.

Deferred tax liabilities have not been recognized on the retained profits of foreign subsidiaries. The retained profits are available to the subsidiaries for further investment.

(10) Minority interests

The amount shown here represents the share of profits and losses attributable to minority shareholders.

Their share of profits was 31 million euros (2008: 22 million euros) and that of losses was 5 million euros (2008: 10 million euros).

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

(11) Intangible assets

Cost

in million euros

	Trademark rights and other rights			Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives		
At January 1, 2008	1,057	852	123	3,392	5,424
Changes in the Group/Acquisitions	86	597	–	2,638 ²⁾	3,321
Additions	–	10	10	–	20
Disposals ¹⁾	–	–41	–	–	–41
Reclassifications	–5	7	4	–	6
Translation differences	63	43	–1	192	297
At December 31, 2008/ January 1, 2009	1,201	1,468	136	6,222²⁾	9,027
Changes in the Group/Acquisitions	–	–	–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	1,156	1,437	156	6,148	8,897
¹⁾ of which assets held for sale 2009	–	–2	–	–39	–41
¹⁾ of which assets held for sale 2008	–	–1	–	–	–1

²⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

Accumulated amortization

in million euros

	Trademark rights and other rights			Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives		
At January 1, 2008	4	457	23	-	484
Changes in the Group/Acquisitions	-	-	-	-	-
Write-ups	-	-	-	-	-
Scheduled amortization	-	78	17	-	95
Impairment losses	-	4	-	-	4
Disposals	-	-39	-	-	-39
Reclassifications	-	-	-	-	-
Translation differences	-	-8	-	-	-8
At December 31, 2008/ January 1, 2009	4	492	40	-	536
Changes in the Group/Acquisitions	-	-	-	-	-
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	9	603	56	11	679
¹⁾ of which assets held for sale 2009	-	-2	-	-35	-37

Net book value

in million euros

	Trademark rights and other rights			Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives		
At December 31, 2009	1,147	834	100	6,137	8,218
At December 31, 2008	1,197	976	96	6,222 ¹⁾	8,491

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

Trademarks and other rights acquired for valuable consideration are stated initially at acquisition cost, while internally generated software is stated at production 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

	Dec. 31, 2008		Dec. 31, 2009	
	Trademark rights and other rights with indefinite useful lives	Goodwill	Trademark rights and other rights with indefinite useful lives	Goodwill
Cash-generating units				
Detergents	338	661	336	637
Household cleaners	240	732	224	717
Total Laundry & Home Care	578	1,393	560	1,354
Retail products	466	1,006	450	982
Hair salon products	13	48	13	49
Total Cosmetics/Toiletries	479	1,054	463	1,031
Adhesives for Craftsmen, Consumers and Building ²⁾	44	389	44	390
Packaging, Consumer Goods and Construction Adhesives	53	1,726	39	1,745
Transport, Metal, General Industry and Electronics	43	1,660	41	1,617
Total Adhesive Technologies	140	3,775¹⁾	124	3,752

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

²⁾ The cash-generating units Building Adhesives and Adhesives for Craftsmen and Consumers were combined in 2009 to facilitate more effective business management

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 1.33. 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: 7 percent after tax for Laundry & Home Care and Cosmetics/Toiletries, and 8 percent after tax for Adhesive Technologies.

In the *Laundry & Home Care* business sector, we have assumed an average annual increase in sales during the three-year forecasting horizon of approximately 4 percent with a slight increase in share of world market.

Sales growth in the *Cosmetics/Toiletries* business sector over the three-year forecasting horizon is budgeted at around 2 percent per year. 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. In conjunction with further measures to improve efficiency and pro-active management of the portfolio, we anticipate achieving higher gross margins in all the business sectors.

We have not recognized any goodwill impairment losses as a result of the impairment test.

Goodwill impairment losses of 35 million euros were recorded in conjunction with the reclassification of assets to the category "Assets held for sale." Likewise, the discontinuation of product lines led to impairment losses of 11 million euros. Goodwill impairment losses totaling 46 million euros are reported under other operating charges (see Note 7, [AR page 92](#)).

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.

In the annual impairment tests for trademark rights and other rights with indefinite useful lives valued at 1,147 million euros, an impairment loss of 5 million euros was identified.

Impairment charges on trademark rights and other rights with definite useful lives relate primarily to assets acquired in previous years attributable to the Adhesive Technologies business sector.

(12) 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, 2008	1,624	2,653	885	175	5,337
Changes in the Group/Acquisitions	161	157	12	12	342
Additions	64	123	85	201	473
Disposals ¹⁾	-40	-233	-105	-11	-389
Reclassifications	134	72	23	-235	-6
Translation differences	-5	-20	-13	-6	-44
At December 31, 2008/January 1, 2009	1,938	2,752	887	136	5,713
Changes in the Group/Acquisitions	-	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	1,915	2,692	898	108	5,613
¹⁾ of which assets held for sale 2009	-28	-16	-2	-	-46
¹⁾ of which assets held for sale 2008	-31	-147	-8	-2	-188

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, 2008	762	1,876	622	-	3,260
Changes in the Group/Acquisitions	-1	-2	-1	-	-4
Write-ups	-	-	-	-	-
Scheduled depreciation	50	160	88	-	298
Impairment losses	32	110	6	1	149
Disposals ¹⁾	-25	-223	-82	-	-330
Reclassifications	-	-	-	-	-
Translation differences	4	-22	-3	-	-21
At December 31, 2008/January 1, 2009	822	1,899	630	1	3,352
Changes in the Group/Acquisitions	-	-	-	-	-
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	828	1,873	664	-	3,365
¹⁾ of which assets held for sale 2009	-16	-14	-2	-	-32
¹⁾ of which assets held for sale 2008	-18	-144	-7	-	-169

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, 2009	1,087	819	234	108	2,248
At December 31, 2008	1,116	853	257	135	2,361

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, 2009 of 21 million euros (2008: 25 million euros). The periods over which the assets are depreciated are based on their estimated useful lives as set out on [AR page 95](#). Scheduled depreciation and impairment losses recognized are disclosed in the consolidated statement of income according to the functions in which the assets are used.

Impairment losses amounting to 21 million euros were incurred in relation to the integration of the National Starch businesses.

(13) 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.

The shares in associated companies are accounted for using the at-equity method at the appropriate proportion of their net assets.

Cost in million euros	Affiliated companies	Investments in associates	Other investments	Total
At January 1, 2008	19	495	32	546
Changes in the Group/Acquisitions	2	1	-	3
Additions	-	64	2	66
Disposals ¹⁾	-	-637	-25	-662
Reclassifications	-	-	-	-
Translation differences	-	78	-	78
At December 31, 2008/Januar 1, 2009	21	1	9	31
Changes in the Group/Acquisitions	-4	-	-	-4
Additions	-	-	-	-
Disposals	-	-	-	-
Reclassifications	-	-	-	-
Translation differences	-	-	-1	-1
At December 31, 2009	17	1	8	26
¹⁾ of which assets held for sale 2008	-	-	-12	-12

Accumulated write-downs

in million euros	Affiliated companies	Investments in associates	Other investments	Total
At January 1, 2008	2	-	16	18
Changes in the Group/Acquisitions	-	-	-	-
Write-ups	-	-	-	-
Write-downs	1	-	2	3
Disposals ¹⁾	-	-	-14	-14
Reclassifications	-	-	-	-
Translation differences	-	-	-	-
At December 31, 2008/January 1, 2009	3	-	4	7
Changes in the Group/Acquisitions	-1	-	-	-1
Write-ups	-	-	-	-
Write-downs	-	-	-	-
Disposals	-	-	-	-
Reclassifications	-	-	-	-
Translation differences	-	-	-	-
At December 31, 2009	2	-	4	6
¹⁾ of which assets held for sale 2008	-	-	-8	-8

Net book value

in million euros	Affiliated companies	Investments in associates	Other investments	Total
At December 31, 2009	15	1	4	20
At December 31, 2008	18	1	5	24

(14) Other non-current financial assets**Other non-current financial assets**

in million euros	Dec. 31, 2008	Dec. 31, 2009
Financial receivables from third parties	26	27
Derivatives with positive fair values	65	189
Miscellaneous non-current financial assets	81	124
Total	172	340

With the exception of derivatives, other financial assets are stated at amortized cost. As soon as risks are identified, valuation allowances are set up. All derivative financial instruments are measured initially at cost and subsequently at their fair values on the balance sheet date.

Miscellaneous financial assets include receivables from a trustee arising from deferred compensation of 70 million euros (2008: 50 million euros) together with receivables from employees and from insurance policies.

(15) Other non-current assets

Other non-current assets comprise miscellaneous tax receivables and, in particular, sundry prepaid expenses and deferred charges.

(16) 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 9 (Taxes on income, **AR** pages 92 to 94).

(17) 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. Interest charges incurred during the period of manufacture are, however, not included.

Inventories are written down to their net realizable value if, on the basis of the lower of quoted or market prices, this is lower than cost at the balance sheet date. The write-down, based on the gross value, was 113 million euros (2008: 87 million euros).

Analysis of inventories

in million euros	Dec. 31, 2008	Dec. 31, 2009
Raw materials and supplies	472	368
Work in process	65	50
Finished products and merchandise	943	797
Payments on account for merchandise	2	3
Total	1,482	1,218

(18) 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 32 million euros (2008: 36 million euros) have been recognized. As in 2008, there are no trade accounts receivable relating to goods and services 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.

(19) Other current financial assets**Other current financial assets**

in million euros	Dec. 31, 2008	Dec. 31, 2009
Amounts receivable from non-consolidated affiliated companies	3	–
Amounts receivable from other investments	9	2
Financial receivables from third parties	166	38
Derivatives with positive fair values	241	70
Miscellaneous current financial assets	156	104
Total	575	214

With the exception of derivatives, 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. All derivative financial instruments are measured initially at cost and subsequently at their fair values on the balance sheet date.

Miscellaneous current financial assets include the following:

- » Amounts due from employees of 10 million euros (2008: 8 million euros)
- » Amounts due from suppliers of 21 million euros (2008: 21 million euros)
- » Amounts due from sureties and guarantee deposits of 27 million euros (2008: 20 million euros)

(20) Other current assets

Other current assets comprise other tax receivables of 157 million euros (2008: 165 million euros), payments on account of 18 million euros (2008: 18 million euros) and various prepaid expenses and deferred charges.

(21) Liquid funds/Marketable securities**Liquid funds/Marketable securities**

in million euros	Dec. 31, 2008	Dec. 31, 2009
Liquid funds	319	1,088
Marketable securities	19	22
Total	338	1,110

Marketable securities are stated at their fair values at the balance sheet date. Value changes are recognized in equity (explained in **AR** Note 42 on pages 112 to 118).

(22) 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 charge of 37 million euros. This relates chiefly to assets of the Adhesive Technologies business sector that are no longer part of the company's core business.

(23) Subscribed capital

Subscribed capital in million euros	Dec. 31, 2008	Dec. 31, 2009
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 – subject to the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital of the corporation in one or more installments at any time up to April 9, 2011, up to a total of 25.6 million euros by issuing new non-voting preferred shares to be paid up in cash (authorized capital). The personally liable partner is authorized – subject to the approval of the Shareholders' Committee and of the Supervisory Board – to exclude the statutory pre-emptive rights of existing shareholders. Pre-emptive rights may only be excluded, however, for fractional entitlements or on condition that the issue price for the new shares is not significantly less than the quoted market price of shares of the same category at the time the issue price is finally fixed.

At the Annual General Meeting of Henkel AG & Co. KGaA on April 20, 2009, 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 October 19, 2010, ordinary or preferred shares in the corporation not exceeding 10 percent of the capital stock.

The personally liable partner was authorized – subject to the approval of the Shareholders' Committee and of the Supervisory Board – to dispose of treasury shares acquired, without first offering them to existing shareholders, by:

- » selling them to third parties or transferring them in other ways for the purpose of acquiring businesses, parts of businesses or investments in businesses or forming business combinations, or
- » selling them for cash in a way other than on the stock market or via an offer addressed to all the shareholders, provided that the selling price of the shares is not significantly lower than the quoted market price at the time of the sale; in this case, the number of shares sold, together with the new shares issued out of authorized capital, to the exclusion of the pre-emptive rights of existing shareholders, must not exceed 10 percent of the existing capital stock when the shares are issued or sold.

The personally liable partner was also authorized – subject to the approval of the Shareholders' Committee and of the Supervisory Board – to cancel treasury stock without further resolution in General Meeting being required.

Treasury stock held by the corporation on December 31, 2009 amounted to 4,541,870 preferred shares. This represents 1.04 percent of the capital stock and a proportional nominal value of 4.5 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 2,945,230 in treasury stock held, with a proportional nominal value of 2.9 million euros (0.67 percent of the capital stock). In 2009, the exercise of options led to

a reduction of 292,900 shares from treasury stock held. The proportional nominal value of the capital stock amounted to 0.3 million euros (0.07 percent). The selling prices were based on the stock market prices prevailing at the time of disposal. Total proceeds on disposal were 9.9 million euros and this was recognized directly in equity.

(24) 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.

(25) Retained earnings

Included in retained earnings are the following:

- » Amounts allocated in the financial statements of Henkel AG & Co. KGaA in previous financial years
- » Amounts allocated from consolidated net earnings less minority interests
- » Buy-back of treasury stock by Henkel AG & Co. KGaA at cost and the gain on their disposal
- » The recognition in equity of actuarial gains and losses

(26) 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.

Mainly as a result of the decrease in the value of the US dollar against the euro, the negative translation difference at December 31, 2009 was increased by 104 million euros compared to December 31, 2008 (2008: negative translation difference decreased by 103 million euros).

(27) Minority interests

The minority interests comprise the shares of third parties in the equity of a number of companies included in the consolidation.

(28) Pensions and similar 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 111 million euros (2008: 98 million euros). In 2009, payments to public sector institutions totaled 57 million euros (2008: 58 million euros) and payments to private sector institutions totaled 54 million euros (2008: 40 million euros).

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

To provide protection under civil law of the pension entitlements of future and current pensioners against insolvency, we have allocated the proceeds of the bond issued in 2005 and certain other assets to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in the capital market in accordance with investment policies laid down in the trust agreement.

Trends in wages, salaries and retirement benefits

in percent

	Germany		USA		Rest of world ¹⁾	
	2008	2009	2008	2009	2008	2009
Discount factor	5.9	4.95	6.4	5.25	5.6	5.1
Income trend	3.25	3.25	4.3	4.3	3.7	3.3
Retirement benefit trend	2.0	2.0	4.3	4.3	3.3	2.4
Expected return on plan assets ¹⁾	6.3	6.32	7.0	7.0	3.9	5.9
Expected increases in costs for medical benefits	-	-	8.5	8.0	9.1	8.0

¹⁾ Weighted average**Present value of pensions and similar obligations at December 31, 2008**

in million euros

	Germany	USA	Rest of world	Total
At January 1, 2008	1,937	685	496	3,118
Changes in the Group	7	178	163	348
Translation differences	-	47	-37	10
Actuarial gains/losses	-130	-50	-67	-247
Current service cost	36	28	26	90
Gains/losses arising from the termination and curtailment of plans	-	-17	-	-17
Interest expense	100	48	31	179
Employees' contributions to pension funds	2	-	1	3
Retirement benefits paid out of plan assets	-17	-28	-26	-71
Employer's payments for pensions and similar obligations	-109	-23	-22	-154
Past service cost	-	-11	-	-11
At December 31, 2008	1,826	857	565	3,248
of which unfunded obligations	120	216	81	417
of which funded obligations	1,706	641	484	2,831

Fair value of plan assets at December 31, 2008

in million euros

	Germany	USA	Rest of world	Total
At January 1, 2008	1,613	463	385	2,461
Changes in the Group	-	95	144	239
Translation differences	-	27	-38	-11
Employer's contributions to pension funds	15	79	63	157
Employees' contributions to pension funds	2	-	1	3
Retirement benefits paid out of plan assets	-17	-28	-26	-71
Expected return on plan assets	102	35	29	166
Actuarial gains/losses	-204	-181	-114	-499
At December 31, 2008	1,511	490	444	2,445
Actual return on plan assets	-102	-146	-85	-333

Net pension cost in 2008

in million euros	Germany	USA	Rest of world	Total
Current service cost	36	28	26	90
Amortization of past service costs	–	–8	–	–8
Gains/losses arising from the termination and curtailment of plans	–	–17	–	–17
Interest expense	100	48	31	179
Expected return on plan assets	–102	–35	–29	–166
Net pension cost	34	16	28	78

Present value of pensions and similar 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 pensions and similar 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 in 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

Reconciliation of overfunding/underfunding and reported provisions for pensions and similar obligations as of December 31, 2009

in million euros	Germany	USA	Rest of world	Total
Overfunding/underfunding of obligations	–340	–357	–147	–844
Plan assets reported as net assets	–	–	–7	–7
Amount not recognized due to asset ceiling	–	–	–12	–12
Past service cost	–	–5	1	–4
Recognized amount	–340	–362	–165	–867

Actuarial gains and losses are recognized in the year in which they arise as part of the pension provision and included in the statement of comprehensive income in accordance with IAS 19.93B “Employee Benefits.” As of December 31, 2009, accumulated actuarial losses of 1,159 million euros (2008: 820 million euros) had been offset against retained earnings.

We have derived the expected return on total plan assets from the weighted expected long-term return on the various categories of assets.

Of the amounts added to the provision in 2009, an amount of 94 million euros (2008: 90 million euros) is included in operating profit (pension costs as part of payroll costs, [AR page 119](#)) and an expense of –45 million euros (2008: expense of –13 million euros) in financial result ([AR page 92](#)). 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 contributions and staff welfare costs” under Note 43. In 2009, payments into the plan assets amounted to 278 million euros (2008: 157 million euros).

Analysis of plan assets

in million euros	Dec. 31, 2008		Dec. 31, 2009	
	Fair value	in %	Fair value	in %
Investment funds				
Invested in shares	441	18.1	508	17.9
Invested in bonds	939	38.4	1,256	44.2
Invested in investment funds	125	5.1	521	18.4
Invested in cash	616	25.2	262	9.2
Invested in sundry assets	33	1.4	–	–
Other assets	190	7.7	167	5.9
Cash	101	4.1	126	4.4
Total	2,445	100.0	2,840	100.0

At December 31, 2009, other assets making up the plan assets included the present value of a non-current receivable of 43 million euros (2008: 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 102 million euros (2008: 107 million euros) against Cognis for indemnification of pension obligations.

In 2009, Henkel AG & Co. KGaA waived indemnification out of the assets held by Henkel Trust e.V. with respect to payments made to pensioners. If the amounts had been indemnified, a total of around 111 million euros would have been paid out of the assets held by Henkel Trust e.V. (2008: 105 million euros). This waiver had a positive effect on the funding ratio with respect to pension obligations.

Effects of a trend change in medical costs

in million euros	Dec. 31, 2008			Dec. 31, 2009		
	Service cost	Interest expense	Present value of obligations	Service cost	Interest expense	Present value of obligations
Increase in medical costs of one percent	0	1	9	0	1	9
Decrease in medical costs of one percent	0	-1	-8	0	-1	-8

Additional information

in million euros	2005	2006	2007	2008	2009
Present value of obligations	3,354	3,352	3,118 ¹⁾	3,248 ³⁾	3,684 ⁵⁾
Fair value of plan assets	2,294	2,564	2,461 ²⁾	2,445 ⁴⁾	2,840 ⁶⁾
Overfunding/underfunding of obligations	-1,060	-788	-657	-803	-844
Effect of experience adjustments on pension obligations	-11	-1	-14	5	25
Effect of experience adjustments on plan assets	29	31	-125	-499	53

¹⁾ Of which obligations with respect to post-retirement health care: 189 million euros

²⁾ Of which plan assets funding obligations with respect to post-retirement health care: 4 million euros

³⁾ Of which obligations with respect to post-retirement health care: 212 million euros

⁴⁾ Of which plan assets funding obligations with respect to post-retirement health care: 8 million euros

⁵⁾ Of which obligations with respect to post-retirement health care: 199 million euros

⁶⁾ Of which plan assets funding obligations with respect to post-retirement health care: 7 million euros

(29) Long-term provisions

Changes in 2008

in million euros	Balance Jan. 1, 2008	Other changes	Utilized	Released	Added	Balance Dec. 31, 2008
Income tax provisions	100	3	53	-	127	177
Sundry long-term provisions	119	25	53	7	43	127
"Global Excellence"	-	-	-	-	161	161
Combination of the Adhesive Technologies businesses	-	-	-	-	48	48
Total	219	28	106	7	379	513

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

The amounts recognized as long-term provisions are the best estimates of the expenditures required to settle the present obligations at the balance sheet date. Provisions which include significant interest elements are discounted to the balance sheet date.

“Global Excellence” is the name given to our worldwide efficiency enhancement program. This initiative involves implementation of a number of individual measures affecting all our business sectors, regions and functions aimed at achieving a sustainable improvement in our profitability and enhancing our long-term competitiveness.

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.

The sundry long-term 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, 2008	Dec. 31, 2009
Sales	10	8
Personnel	73	83
Production and engineering	20	35
Various other obligations	24	54
Total	127	180

(30) Long-term borrowings

Age analysis as of December 31, 2008:

Analysis

in million euros

	Residual term		Dec. 31, 2008 Total
	More than 5 years	Between 1 and 5 years	
Bonds <i>(of which amounts secured)</i>	1,339	1,024	2,363 (1)
Bank loans and overdrafts ¹⁾ <i>(of which amounts secured)</i>	6	27	33 (29)
Other financial liabilities <i>(of which amounts secured)</i>	–	6	6 (6)
Total	1,345	1,057	2,402

¹⁾ Obligations with variable rates of interest or interest rates pegged for less than one year

Composition of bonds as of December 31, 2008:

Bonds

in million euros

Issued by	Type	Nominal	Book value	Market ¹⁾	Interest rate ²⁾	Interest fixed
Henkel AG & Co. KGaA <i>Interest rate swap (3-month Euribor +0.405%)</i>	Bond	1,000	1,024	1,007	4.2500	until 2013 ³⁾
	<i>Receiver swap</i>	<i>1,000</i>	<i>26</i>	<i>26</i>	<i>3.8931</i>	<i>3 months</i>
Henkel AG & Co. KGaA <i>Interest rate swap (3-month Euribor +1.80%)</i>	Hybrid bond	1,300	1,331	1,034	5.3750	until 2015 ⁴⁾
	<i>Receiver swap</i>	<i>650</i>	<i>37</i>	<i>37</i>	<i>5.8212</i>	<i>3 months</i>
	<i>Interest rate swap (1-month Euribor +0.955%)</i>	<i>650</i>	<i>2</i>	<i>2</i>	<i>3.6970</i>	<i>1 month</i>

¹⁾ Market value of the bonds derived from the stock market price at December 30, 2008

²⁾ Interest rate on December 31, 2008

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, 2009 (fair value hedge)

⁴⁾ 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, 2009 (fair value hedge)

Age analysis as of December 31, 2009:

Analysis

in million euros

	Residual term		Dec. 31, 2009 Total
	More than 5 years	Between 1 and 5 years	
Bonds <i>(of which amounts secured)</i>	1,368	2,040	3,408 (1)
Bank loans and overdrafts <i>(of which amounts secured)</i>	2	13	15 (11)
Other financial liabilities <i>(of which amounts secured)</i>	–	3	3 (–)
Total	1,370	2,056	3,426

Composition of bonds as of December 31, 2009:

Bonds

in million euros

Issued by	Type	Nominal	Book value	Market ¹⁾	Interest rate ²⁾	Interest fixed
Henkel AG & Co. KGaA <i>Interest rate swap (3-month Euribor +0.405%)</i>	Bond <i>Receiver swap</i>	1,000 <i>1,000</i>	1,045 <i>46</i>	1,052 <i>46</i>	4.2500 <i>1.1211</i>	until 2013 ³⁾ <i>3 months</i>
Henkel AG & Co. KGaA <i>Interest rate swap (3-month Euribor +2.02%)</i>	Bond <i>Receiver swap</i>	1,000 <i>1,000</i>	994 <i>–2</i>	1,066 <i>–2</i>	4.6250 <i>2.7333</i>	until 2014 ⁴⁾ <i>3 months</i>
Henkel AG & Co. KGaA <i>Interest rate swap (3-month Euribor +1.80%)</i>	Hybrid bond <i>Receiver swap</i>	1,300 <i>650</i>	1,360 <i>19</i>	1,192 <i>19</i>	5.3750 <i>2.5152</i>	until 2015 ⁵⁾ <i>3 months</i>
<i>Interest rate swap (1-month Euribor +0.955%)</i>	<i>Receiver swap</i>	<i>650</i>	<i>50</i>	<i>50</i>	<i>1.4290</i>	<i>1 month</i>

¹⁾ Market value of the bonds derived from the stock market price at December 31, 2009; market value of the interest rate swaps excluding the effect of accrued interest

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)

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 after 99 years 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 Clause 3 (4) of the bond terms and conditions for definitions. On the basis of the cash flow calculated at December 31, 2009, the percentage was 43.06 percent (2008: 22.54 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 amounted to 1,388 million euros.

(31) Non-current financial liabilities

Non-current financial liabilities comprise amounts due to employees of 54 million euros (2008: 77 million euros) and derivatives at fair values of 19 million euros (2008: 0 million euros).

(32) Other non-current liabilities

Other non-current liabilities comprise in particular various deferrals and accruals.

(33) Deferred taxes

The provisions for deferred taxes relate to differences between the carrying amount in the consolidated balance sheet and the tax base used by the individual companies included in the consolidation to calculate their taxable profits (Note 9).

(34) Short-term provisions**Changes in 2008**

in million euros	At Jan. 1, 2008	Other changes	Utilized	Released	Added ¹⁾	At Dec. 31, 2008 ¹⁾
Income tax provisions	152	48	86	1	230	343
Sundry current provisions	755	27	616	53	670	783
"Advanced Restructuring"	8	–	8	–	–	–
"Global Excellence"	–	–	–	–	129	129
Combination of the Adhesive Technologies businesses	–	–	–	–	52	52
Total	915	75	710	54	1,081	1,307

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

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

The amounts recognized as short-term provisions are the best estimates of the expenditures required to settle the present obligations at the balance sheet date.

Analysis of sundry current provisions by function

in million euros	Dec. 31, 2008 ¹⁾	Dec. 31, 2009
Sales	212	177
Personnel	323	324
Production and engineering	2	56
Various other obligations	246	248
Total	783	805

¹⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

(35) Short-term borrowings

Analysis in million euros	Dec. 31, 2008 Total	Dec. 31, 2009 Total
Liabilities from bonds	31	300
Commercial papers ¹⁾ (of which secured)	175 (175)	71 (35)
Bank loans and overdrafts (of which secured)	1,099 (617)	288 (125)
Other financial liabilities	512	1
Total	1,817	660

¹⁾ From the euro and US dollar commercial paper program
(total amount 2.1 billion euros)

The increase in current liabilities from bonds is due to the issuance of a floating rate note.

The market value of short-term borrowings is the same as their book value, due to their short-term nature.

(36) Trade accounts payable

Trade accounts payable include purchase invoices and accruals for invoices outstanding in respect of goods and services received.

(37) Current financial liabilities

Analysis in million euros	Dec. 31, 2008 Total	Dec. 31, 2009 Total
Amounts due to non-consolidated affiliated companies	20	15
Derivatives with negative fair values	186	60
Sundry current financial liabilities (of which secured)	66 (-)	70 (-)
Total	272	145

Sundry current financial liabilities include the following:

- » Amounts due to customers of 23 million euros (2008: 16 million euros)
- » Commission payable of 3 million euros (2008: 3 million euros)
- » Amounts due to employees of 26 million euros (2008: 36 million euros)

(38) Other current liabilities

Other current liabilities include sundry deferred income and the following:

- » Liabilities in respect of social security of 22 million euros (2008: 26 million euros)
- » Advance payments received of 4 million euros (2008: 4 million euros)
- » Liabilities relating to employees' deductions of 41 million euros (2008: 41 million euros)
- » Other tax liabilities of 130 million euros (2008: 117 million euros)

(39) Contingent liabilities

Analysis in million euros	Dec. 31, 2008	Dec. 31, 2009
Liabilities under guarantee and warranty agreements	10	11

(40) Other financial commitments

Payment obligations under rent, leasehold and 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, 2009, they were due for payment as follows:

Rent, leasehold and lease commitments in million euros	Dec. 31, 2008	Dec. 31, 2009
Due in the following year	49	44
Due within 1 to 5 years	88	89
Due after 5 years	16	37
Total	153	170

In the course of the 2009 financial year, 51 million euros became due for payment under operating leases (2008: 37 million euros).

The order commitments for property, plant and equipment amounted to 23 million euros at the end of 2009 (2008: 51 million euros) and the purchase commitments from toll manufacturing contracts amounted to 0 million euros (2008: 3 million euros).

Payment commitments under the terms of agreements for capital increases and share purchases signed prior to December 31, 2009 amounted to 18 million euros (2008: 19 million euros).

(41) 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 for ordinary and preferred shares was unchanged compared with the previous year. The cash flow not required for investment and dividend payments was used to reduce net debt. 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 2009 the interest coverage factor was 8.7 (2008: 4.8), while operating debt coverage was 41.8 percent (2008: 45.1 percent). The equity ratio was 41.4 percent (2008: 40.3 percent). For further details, see the financial ratios section in the Group management report ([AR](#) page 48).

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.

(42) 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 con-

nection 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, for example, the risk positions and the success of the risk management in each company, country and group of countries can at any time be determined on a mark-to-market basis and compared to a benchmark.

Recognition and measurement of financial instruments

Financial instruments are measured initially at cost on the trade day. Portfolios of marketable securities and other investments quoted on the stock exchange which are managed on a fair value basis are categorized and recognized as at fair value through profit or loss in accordance with IAS 39 "Financial Instruments." Changes in fair value are recognized in financial items in the consolidated statement of income. Other marketable securities and other investments held as non-current assets are classified as available for sale and also recognized at fair value where this can be reliably determined. Changes in fair value are recognized directly in equity unless the asset is permanently impaired, in which case the impairment loss is recognized in profit or loss. If the fair values of other marketable securities and other investments cannot be reliably determined, these instruments are subsequently

measured at amortized cost. Shares in affiliated companies are measured at amortized cost as their fair value cannot be reliably determined. We have no financial assets categorized as held to maturity. Like all other financial assets, long-term loans are accounted for in loans and receivables, and stated at amortized cost.

Specific financial instruments by category

in million euros	Dec. 31, 2008	Dec. 31, 2009
Marketable securities	19	22
– at fair value through profit or loss	–	–
– at fair value recognized in equity	19	22
Other investments/Shares in affiliated companies	23	19
– at fair value through profit or loss	–	–
– at amortized cost	23	19

The fair values of marketable securities are based exclusively on quoted market prices (level 1 of the fair value hierarchy). No fair values are assigned to levels 2 and 3 of the fair value hierarchy.

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.

All derivative financial instruments entered into by the Group are measured initially at cost and subsequently at their fair values on the balance sheet date. The accounting treatment of gains and losses 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 the 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, a derivative financial instrument is identified as a hedge of the exposure to changes

in the fair value of an asset or a liability (fair value hedge), a hedge of the exposure to variability in future cash flows (cash flow hedge) or a hedge of a net investment in a foreign entity.

Fair value hedges: The gain or loss from remeasuring derivatives used to hedge the exposure to changes in fair value is recognized in profit or loss together with the gain or loss on the hedged item. The interest rate derivatives used to hedge the exposure to interest rate risks arising from the bonds issued by Henkel AG & Co. KGaA qualify as fair value hedges. To determine the change in fair value of the bonds (see Note 30 starting on [AR page 108](#)), only that portion of the bond which relates to the hedged interest rate risk is taken into account.

Interest rate hedging instruments at the balance sheet date had positive fair values of 113 million euros (2008: positive fair values of 65 million euros) excluding accrued interest. The gain or loss on remeasuring the derivatives at fair value based on market interest rate risk (2009: gain of 48 million euros, 2008: gain of 148 million euros) and the gain or loss on the hedged bonds (2009: loss of –47 million euros, 2008: loss of –142 million euros) have both been included under financial result in the consolidated statement of income.

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 through profit or loss. 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 recycled through profit or loss in those reporting periods in which the hedged transaction impacts the statement of income. In the past financial year, one cash flow hedge was entered into; the appertaining changes in fair value were recognized directly in equity after income tax. There were no ineffective portions of hedges; no amounts were transferred in the course of the year from equity to the statement of income.

**Cash flow hedges
(after tax)**

in million euros	At January 1	Additions (taken to equity)	Disposals (taken to profit or loss)	At December 31
2009	-265	-11	-	-276
2008	-95	-170	-	-265

The hedge relates to interest rate hedging of the US dollar liabilities of Henkel of America, Inc. The fair values of the interest rate hedging instruments amount to -19 million euros. The changes in fair value after income tax amounting to -11 million euros were recognized in equity. The cash flows from the transactions hedged at December 31, 2009 are expected in June 2013 and March 2014.

Hedges of net investments in foreign entities: These relate to forward exchange contracts that are used to hedge exposure to currency translation risks in foreign entities. The accounting treatment is similar to that applied to cash flow hedges.

In the past financial year, no hedges of a net investment in a foreign entity were entered into. No amounts were transferred in the course of the year from equity to income and no ineffective portions were included in the consolidated statement of income.

The hedges relate to translation risks arising from net investments in Swiss francs (CHF) and US dollars (USD). At the balance sheet date there were no open forward exchange contracts relating to hedges of a net investment in a foreign entity.

**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
2009	53	-	-	53
2008	-17	70	-	53

Fair values of derivative financial instruments

The fair values of forward exchange contracts are calculated on the basis of current European Central Bank reference prices, taking account of forward premiums and discounts. Currency options are measured using market quotations or recognized option pricing models. The fair values of interest

rate hedging instruments are determined on the basis of discounted future expected cash flows, using the market interest rates ruling over the remaining terms of the derivatives. 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 Maturities	EUR		USD		JPY		GBP	
	2008	2009	2008	2009	2008	2009	2008	2009
3 months	2.95	0.50	1.75	0.47	0.95	0.45	2.80	0.71
6 months	2.93	0.93	1.70	0.68	1.16	0.30	2.76	0.93
1 year	3.00	1.21	2.35	1.12	1.35	0.47	2.93	1.58
2 years	2.64	1.84	1.40	1.38	0.74	0.48	2.60	2.01
5 years	3.20	2.80	2.05	2.99	0.91	0.70	3.18	3.45
10 years	3.75	3.65	2.51	4.07	1.24	1.44	3.49	4.21

In measuring derivative financial instruments, the credit default 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. This resulted in a charge to income in fiscal 2009 of 2.5 million euros.

Derivative financial instruments with a positive fair value at the balance sheet date are included in other financial assets, and those with a negative fair value are included

in financial liabilities (current or non-current depending on maturity).

Most of the forward exchange contracts and currency options 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 in million euros	Nominal value		Positive fair value ³⁾		Negative fair value ³⁾	
	2008	2009	2008	2009	2008	2009
Forward exchange contracts ¹⁾	5,457	2,450	240	70	-186	-60
<i>(of which for hedging loans within the Group)</i>	<i>(4,013)</i>	<i>(2,091)</i>	<i>(213)</i>	<i>(68)</i>	<i>(-97)</i>	<i>(-56)</i>
Currency options ¹⁾	25	-	1	-	-	-
Interest rate swaps ²⁾	2,300	4,688	65	177	-	-19
<i>(of which designated for hedge accounting)</i>	<i>(2,300)</i>	<i>(4,688)</i>	<i>(65)</i>	<i>(177)</i>	<i>(-)</i>	<i>(-19)</i>
Other interest rate hedging instruments ²⁾	901	1,000	-	11	-	-
<i>(of which designated for hedge accounting)</i>	<i>(-)</i>	<i>(-)</i>	<i>(-)</i>	<i>(-)</i>	<i>(-)</i>	<i>(-)</i>
Commodity futures ²⁾	-	16	-	1	-	-
Total derivative financial instruments	8,683	8,154	306	259	-186	-79

¹⁾ Maturity period < 1 year

²⁾ Maturity period > 1 year

³⁾ Fair values including accrued interest

Risks arising from financial instruments

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 implemented 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 activities involving 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 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 entered into collateral agreements with selected banks in 2009. Reciprocal sureties are implemented to hedge the fair values of the derivatives transacted.

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 2008, the book value of receivables and loans which were potentially 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, 2009	137	26	12	3	178
At December 31, 2008	502	52	16	5	575

In 2009, we made specific allowances for bad debts of 36 million euros (2008: 41 million euros) and general allowances for bad debts of 7 million euros (2008: 6 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 liquid-

ity 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 opened to secure the commercial paper program. The individual subsidiaries of the Henkel Group additionally have at their disposal committed bilateral loans of 0.5 billion euros.

Our credit rating is regularly assessed by independent rating agencies.

Cash flows from financial liabilities

in million euros

	Dec. 31, 2008 Book value	Residual term			Dec. 31, 2008 Total cash flow
		Up to 1 year	Between 1 and 5 years	More than 5 years	
Bonds ¹⁾	2,394	112	1,450	1,448	3,010
Commercial papers ²⁾	175	175	–	–	175
Bank loans and overdrafts	1,132	2,170 ³⁾	34	9	2,213
Trade accounts payable	1,678	1,678	–	–	1,678
Interest-bearing loans from third parties	512	523	6	–	529
Sundry financial instruments ⁴⁾	169	92	42	35	169
Original financial instruments	6,060	4,750	1,532	1,492	7,774
Derivative financial instruments	186	186	–	–	186
Total	6,246	4,936	1,532	1,492	7,960

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⁾ Bank loans from the bridge loan facility are offset against liquid funds; cash flows are stated with no offset

⁴⁾ Sundry financial instruments include amounts due from employees, and finance bills

Cash flows from financial liabilities

in million euros

	Dec. 31, 2009 Book value	Residual term			Dec. 31, 2009 Total cash flow
		Up to 1 year	Between 1 and 5 years	More than 5 years	
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	–6⁴⁾	–	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

Market risk

The market risk arising from financial instruments principally consists of currency and interest rate risks. This 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 74.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2009 amounted to 12 million euros after hedging (2008: 40 million euros). The value-at-risk analysis assumes a risk 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 relates to 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 fluctuation is exerted by the Russian ruble, the Turkish lira and the Ukrainian hryvnia.

Interest rate risk

The Henkel Group obtains the cash it requires from the international money and capital markets. Some of 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 control and minimize this risk. With respect to hedging of the interest rate risk, only those derivative financial instruments may be used that can be monitored and assessed in the risk management system.

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 its interest rate lock-down structure. In fiscal 2009, a majority of the financing of Henkel of America, Inc. was converted using interest rate swaps into fixed interest bearing instruments in order to secure the currently low long-term US dollar interest rate level. Conversely, the cou-

pon 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, Henkel's 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 exposure in million euros	Dec. 31, 2008	Dec. 31, 2009
Based on an interest rate rise of 100 basis points	38	64
of which		
Cash flow through profit or loss	38	14
Fair value through comprehensive income	–	50

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 attract 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 short-term and long-term borrowings). The interest 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 then being calculated. Interest rate risks arise mainly from interest-bearing financial instruments in euros and interest rate derivatives in US dollars.

Supplementary information on the consolidated statement of income/balance sheet

(43) Payroll cost

Payroll cost ¹⁾ in million euros	2008	2009
Wages and salaries	1,949	1,888
Social security contributions and staff welfare costs	351	333
Pension costs	136	161
Total	2,436	2,382

¹⁾ Excluding personnel-related restructuring charges of 86 million euros (2008: 343 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. For options issued prior to 2002, a period of 60 trading days is applied. 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 domestic 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 tranches. Because the exercise period for the second tranche expired on July 12, 2009, 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	2nd tranche	3rd tranche	4th tranche	5th tranche	Total
At January 1, 2009	24,189	38,114	52,646	9,000	123,949
<i>expressed in preferred shares</i>	217,700	343,025	789,695	189,000	1,539,420
Options granted	105	105	105	–	315
<i>expressed in preferred shares</i>	945	945	1,575	–	3,465
Options exercised ¹⁾	210	14,418	8,230	1,800	24,658
<i>expressed in preferred shares</i>	1,890	129,760	123,450	37,800	292,900
Options forfeited	420	2,055	1,293	–	3,768
<i>expressed in preferred shares</i>	3,780	18,495	19,400	–	41,675
Lapsed options	23,664	–	–	–	23,664
<i>expressed in preferred shares</i>	212,975	–	–	–	212,975
At December 31, 2009	–	21,746	43,228	7,200	72,174
<i>expressed in preferred shares</i>	–	195,715	648,420	151,200	995,335
of which held by the Management Board	–	4,700	7,250	7,200	19,150
<i>expressed in preferred shares</i>	–	42,300	108,750	151,200	302,250
of which held by other senior executives	–	17,046	35,978	–	53,024
<i>expressed in preferred shares</i>	–	153,415	539,670	–	693,085

¹⁾ Average price at exercise date = 31.47 euros

At December 31, 2009, there is a provision of 11.6 million euros (2008: 4.0 million euros) in respect of the fourth tranche. The amount of 7.6 million euros added to the provision had the effect of decreasing earnings for the period. The intrinsic value of the exercisable options in the fourth tranche at the end of the financial year is 11.5 million euros (2008: 2.1 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 2nd tranche	On issue 3rd tranche	At Dec. 31, 2009 4th tranche	On issue 5th tranche
Exercise price (before share split)	in euros	71.23	74.67	57.66	71.28
Exercise price (after share split)	in euros	23.74	24.89	19.22	23.76
Expected volatility of the preferred share price	in %	33.10	32.40	36.40	26.60
Expected volatility of the index	in %	20.70	22.40	–	18.60
Expected lapse rate	in %	3	3	–	–
Risk-free interest rate	in %	4.18	4.78	0.90	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 second tranche ended on July 12, 2004, that of the third tranche on May 16,

2005, that of the fourth tranche on May 11, 2006 and that of the fifth tranche on May 15, 2007. Hereafter, at any time during a five-year period, the option holders in the second and third tranches 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 second and third tranches 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 second tranche lapsed on July 12, 2009 as per the prescribed deadline. The outstanding option rights for tranches three to 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. If certain set targets are achieved, Cash Performance Units (CPUs) are granted, which give the member of the CPU Plan 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 executive but also on the achievement of set target figures. For the periods to date, these targets have been operating profit (EBIT) and net earnings after minority interests. 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 executive 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 third tranche, which was issued in 2006, became due for pay-

ment in July 2009. Across the world, at December 31, 2009, the CPU Plan comprised 313,988 CPUs issued in the fourth tranche in 2007 (expense: 3.9 million euros), 399,229 CPUs from the fifth tranche issued in 2008 (expense: 4.9 million euros) and 454,155 CPUs from the sixth tranche issued in the year under review (expense: 5.6 million euros). The corresponding provision amounts to 27.1 million euros (2008: 18.8 million euros).

Cash Performance Units (CPU) Program

Members of the Management Board are 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 CPUs due are determined and the resulting tranche income is paid in cash. Each member of the Management Board participating in a tranche is 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 2007, 2008 and 2009 tranches were 39.04 euros, 33.72 euros and 21.78 euros respectively. We have based the measurement of the provision for the tranche issued in 2009 on the achievement of mid-range targets; the pro rata provisions for the current tranches issued in the previous years have been adjusted on the basis of current figures. This has resulted in a reduced expense of 0.6 million euros for the financial year. The provision at December 31, 2009 for all the tranches issued is 0.4 million euros (2008: 1.4 million euros).

(44) Employee structure

Annual average excluding apprentices and trainees, work experience students and interns, based on quarterly figures:

Number of employees per function	2008	2009
Production and engineering	26,230	24,665
Marketing, selling and distribution	17,235	16,123
Research and development	2,942	2,743
Administration	9,106	7,830
Total	55,513	51,361

(45) Group segment reporting

The format for reporting the activities of the Henkel Group by segment is by business sector and additionally by region. 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, Adhesives for Craftsmen and Consumers, 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.

Adhesives for Craftsmen and Consumers/ 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 DIY 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		Balance sheet figures Dec. 31, 2009	
	Annual average ¹⁾ 2009	Dec. 31, 2009		
Goodwill at book value	6,211	6,084	6,137	Goodwill at book value
Other intangible assets and property, plant and equipment (total)	4,518	4,329	4,329	Other intangible assets and property, plant and equipment (total)
			20	Financial assets
			322	Deferred tax assets
Inventories	1,382	1,218	1,218	Inventories
Trade accounts receivable from third parties	1,895	1,721	1,721	Trade accounts receivable from third parties
Intra-group accounts receivable	777	776	–	
Other assets and tax refund claims ²⁾	394	383	931	Other assets and tax refund claims
			1,110	Liquid funds/Marketable securities
			30	Assets held for sale
Operating assets (gross)	15,177	14,511	15,818	Total assets
– Operating liabilities	4,031	4,099		
of which				
Trade accounts payable to third parties	1,747	1,885	1,885	Trade accounts payable to third parties
Intra-group accounts payable	777	776		
Other provisions and other liabilities ²⁾ (financial and non-financial)	1,507	1,438	1,683	Other provisions and other liabilities (financial and non-financial)
Net operating assets	11,146	10,412		
– Goodwill at book value	6,211	–	–	
+ Goodwill at acquisition cost ³⁾	6,606	–	–	
Capital employed	11,541	–	–	

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)

(46) Earnings per share

The Stock Incentive Plan (Note 43, [AR pages 119 to 122](#)) currently results in no dilution of earnings per ordinary share and per preferred share. The dilutive effect from the preferred

shares potentially flowing back into the market has been outweighed by adding back, in accordance with IAS 33.33 (c) "Earnings Per Share," the expense from the payment for the fourth tranche of the Stock Incentive Plan.

Earnings per share

in million euros (rounded)

	2008	2009
Net earnings after minority interests	1,221	602
Dividends, ordinary shares	132	132
Dividends, preferred shares	92	92
Total dividends	224	224
Retained profit per ordinary share	598	227
Retained profit per preferred share	399	151
Retained profit	997	378
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.51	0.51 ⁴⁾
<i>of which advance dividend per ordinary share in euros¹⁾</i>	0.02	0.02
Retained profit per ordinary share in euros	2.30	0.87
EPS per ordinary share in euros	2.81	1.38
Number of outstanding preferred shares ²⁾	173,238,398	173,363,241
Dividend per preferred share in euros	0.53	0.53 ⁴⁾
<i>of which advance dividend per preferred share in euros¹⁾</i>	0.04	0.04
Retained profit per preferred share in euros	2.30	0.87
EPS per preferred share in euros	2.83	1.40
Number of ordinary shares	259,795,875	259,795,875
Dividend per ordinary share in euros	0.51	0.51 ⁴⁾
<i>of which advance dividend per ordinary share in euros¹⁾</i>	0.02	0.02
Retained profit per ordinary share in euros	2.28	0.87
Diluted EPS per ordinary share in euros	2.79⁵⁾	1.38
Number of potential outstanding preferred shares ³⁾	173,575,794	173,392,463
Dividend per preferred share in euros	0.53	0.53 ⁴⁾
<i>of which advance dividend per preferred share in euros¹⁾</i>	0.04	0.04
Retained profit per preferred share in euros	2.28	0.87
Diluted EPS per preferred share in euros	2.81⁵⁾	1.40

¹⁾ See Group management report, page 23 Corporate governance, Division of capital stock, Shareholder rights

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 earnings attributable to one shareholder of Henkel AG & Co. KGaA of 1,212 million euros (IAS 33.59)

(47) Cash flow statement

Cash flow from investing activities/acquisitions includes under the heading "Purchase of financial assets/acquisitions" funds used to make acquisitions of 8 million euros (2008: 3,708 million euros). Investments in acquisitions comprised 8 million euros attributable to the Laundry & Home Care business sector. Investments of 103 million euros, offset

by proceeds from the cash pool settlement relating to the acquisition of the National Starch businesses, were attributable to the Adhesive Technologies business sector.

Included in the figure for cash and cash equivalents are marketable securities which are short-term in nature and are exposed only to an insignificant risk of a change in price.

(48) Information on voting rights, related party transactions

Information required by Clause 160 (1) no. 8 of the German Joint 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 December 30, 2009 represents in total 52.57 percent of the voting rights (136,575,802 votes) in Henkel AG & Co. KGaA and is held by:

- » 106 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
- » 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 Clause 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 Clause 22 (1) no. 1 WpHG) to the family members who control those companies.

Dr. h.c. 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 attainment of 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.


Silchester International Investors Limited, headquartered in London, Great Britain, has informed us that its share of voting rights in Henkel AG & Co. KGaA exceeded the 3 percent threshold on June 23, 2008 and stood at 3.01 percent on that day, with 7,824,150 voting rights. All voting rights are attributed to Silchester International Investors Limited pursuant to Clause 22 (1) sentence 1 no. 6 WpHG.

Members of the families of the descendants of Fritz Henkel, the company's founder, and charitable foundations

within their sphere of influence that hold shares in Henkel AG & Co. KGaA, and members of the Shareholders' Committee advanced funds on loan to the Henkel Group in the year under review, on which interest has been payable at an average rate of 3.37 percent (2008: 5.11 percent). Funds on loan advanced to the Henkel Group were repaid except for a small residual amount by the end of February 2009. The average amount of funds on loan advanced in the period January to February 2009 was 504 million euros (2008: 530 million euros), while the balance at December 31, 2009 was 0 million euros (December 31, 2008: 512 million euros). All funds on loan were repaid in full by the end of May 2009.

Members of the Supervisory Board who are not also members of the Shareholders' Committee advanced funds on loan to the Henkel Group in the year under review averaging 3.3 million euros (2008: 4.9 million euros), carrying an average interest rate of 3.37 percent (2008: 5.13 percent), while the balance at December 31, 2009 was 0 million euros (December 31, 2008: 3.9 million euros).

(49) Remuneration of the corporate management bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,425k euros (2008: 1,231k euros) and 2,345k euros (2008: 2,303k euros) respectively. The total remuneration (Clause 285 no. 9 German Commercial Code [HGB]) of the Management Board (members of the Management Board of Henkel Management AG) amounted to 11,295k euros (2008: 13,270k euros). For further details regarding the emoluments of the corporate management bodies, please refer to the remuneration report on  pages 26 to 33.

(50) Declaration of compliance with the Corporate Governance Code

In February 2009, 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 Clause 161 of the German Joint Stock Corporation Act [AktG]. The declaration has been made permanently available to shareholders on the company website  www.henkel.com/ir.

(51) 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 which will be available via the commercial register and can also be inspected at the Annual General Meeting.

(52) Information on shares in affiliated companies and other investments

The major subsidiaries of the Group are as follows:

			Share in percent
Algeria	Henkel Algérie S.P.A.	Wilaya d'Alger	100.00
Australia	Henkel Australia Pty. Ltd.	Silverwater	100.00
Austria	Henkel Austria GmbH	Vienna	100.00
	Henkel Central Eastern Europe GmbH	Vienna	100.00
Belgium	Henkel Belgium N.V.	Brussels	100.00
Brazil	Henkel Ltda.	São Paulo	100.00
Canada	Henkel Canada Corporation	Halifax	100.00
	Henkel Consumer Goods Canada, Inc.	Toronto	100.00
China	Henkel (China) Co. Ltd.	Shanghai	99.11
	Henkel Loctite (China) Co. Ltd.	Beijing	100.00
	National Starch & Chemical (Shanghai) Co. Ltd.	Shanghai	100.00
Croatia	Henkel Croatia doo	Zagreb	100.00
Czech Republic	Henkel CR spol.s.r.o.	Prague	100.00
Egypt	Henkel Trading Egypt SA	Cairo	100.00
France	Henkel France S.A.	Boulogne-Billancourt	100.00
	Henkel Technologies France SAS	Boulogne-Billancourt	100.00
Germany	Schwarzkopf & Henkel Production Europe GmbH & Co. KG	Düsseldorf	100.00
Great Britain	Henkel Ltd.	Hatfield	100.00
Greece	Henkel Hellas S.A.	Athens-Moshato	100.00
Hong Kong	Henkel Adhesive Technologies (Hong Kong) Ltd.	Hong Kong	100.00
Hungary	Henkel Magyarország Kft	Budapest	100.00
India	Henkel Marketing India Ltd.	Hyderabad	48.93
Ireland	Loctite (Ireland) Holding Ltd.	Dublin	100.00
	Loctite (Overseas) Ltd.	Dublin	100.00
Italy	Henkel Italia S.p.A.	Ferentino	100.00
Japan	Henkel Japan Ltd.	Tokyo	100.00
Mexico	Henkel Capital S.A. de C.V.	Ecatepec de Morelos	100.00
Netherlands	Henkel Nederland B.V.	Nieuwegein	100.00
Poland	Henkel Polska Sp. z o.o.	Warsaw	100.00
Romania	Henkel Romania Srl	Bucharest	100.00
Russia	OAO Henkel ERA	Tosno	100.00
	OOO Rushenk	Moscow	100.00
	ZAO Schwarzkopf & Henkel	Moscow	100.00
Serbia	Henkel Merima d.o.o.	Krusevac	99.60
Slovakian Republic	Henkel Slovensko spol. s.r.o	Bratislava	100.00
South Korea	Henkel Technologies (Korea) Ltd.	Seoul	100.00
Spain	Henkel Ibérica S.A.	Barcelona	100.00
Sweden	Henkel Norden AB	Stockholm	100.00
Switzerland	Henkel & Cie. AG	Pratteln	100.00
Thailand	Henkel (Thailand) Ltd.	Bangkok	100.00
Tunisia	Henkel Alki Distribution S.A.R.L.	Tunis	99.96
Turkey	Türk Henkel Kimya Sanayi ve Ticaret A.S.	Istanbul	100.00

		Share in percent	
Ukraine	Henkel Bautechnik (Ukraina) TOB	Vyshgorod	100.00
	Henkel Ukraine TOB	Kiev	100.00
United Arab Emirates	Henkel Polybit Industries Co. Ltd.	Umm Al Quwain	49.00
USA	Dial International, Inc.	Phoenix	100.00
	Henkel Consumer Goods, Inc.	Dover	100.00
	Henkel Corporation	Wilmington	100.00
	Henkel of America, Inc.	Wilmington	100.00
	Pure & Natural Company	Phoenix	100.00
	The Dial Corporation	Wilmington	100.00
Venezuela	Henkel Venezolana S.A.	Estado Carabobo	100.00

In each of the following companies, Henkel AG & Co. KGaA holds, either directly or indirectly, not more than half of the shares, but has the power to govern the financial and

operating policies of the company. Therefore the company is consolidated.

		Share in percent	
Austria	Biozym GmbH	Kundl	49.00
Egypt	Henkel Polybit Egypt Co. Ltd.	Badr City	49.00
India	Henkel Marketing India Ltd.	Hyderabad	48.93
Lebanon	Detergenta Holding S.A.L.	Beirut	49.97
	Henkel Lebanon S.A.L.	Beirut	50.00
Syria	Henkel Syria S.A.S.	Aleppo	49.97
Turkey	Eczacibasi Schwarzkopf Kuafor Urunleri Pazarlama A.S.	Istanbul	50.00
United Arab Emirates	Henkel Polybit Industries Co. Ltd.	Umm Al Quwain	49.00
	Roof Care Co.	Sharjah	49.00

The following dormant companies or companies with insignificant operations are immaterial to the net assets, financial

position and results of operations of the Group and are stated at amortized cost:

		Share in percent	
Argentina	The Dial Corporation Argentina S.A.	Buenos Aires	100.00
Austria	Persil-Altersunterstützung GmbH	Vienna	100.00
	Schwarzkopf & Henkel GmbH	Vienna	100.00
Germany	CALMATO Grundstücks-Vermietungsgesellschaft mbH	Düsseldorf	49.00
	CANTICA Beteiligungsgesellschaft mbH	Düsseldorf	49.00
	CHEMPHAR Handels- und Exportgesellschaft mbH	Hamburg	100.00
	Clynol GmbH	Hamburg	100.00
	Entsorgungszentrum Düsseldorf Süd GmbH	Düsseldorf	50.00
	Erste Deutsche Walfang GmbH	Hamburg	100.00
	Fandus Grundstücksvermietungsgesellschaft mbH & Co. Objekt Willich KG	Düsseldorf	68.62
	Forstverwaltung Brannenburg Geschäftsführungs-GmbH	Düsseldorf	100.00
	Forstverwaltung Brannenburg GmbH & Co. OHG	Brannenburg	100.00
	Henkel Erste Verwaltungsgesellschaft mbH	Düsseldorf	100.00
Henkel Wasch- und Reinigungsmittel GmbH	Düsseldorf	100.00	

			Share in percent
Germany (continued)	Henkel Zweite Verwaltungsgesellschaft mbH	Düsseldorf	100.00
	Indola GmbH	Hamburg	100.00
	MATERNA Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Reisholz KG	Düsseldorf	49.00
	Schwarzkopf & Henkel GmbH	Düsseldorf	100.00
	Schwarzkopf & Henkel Production Management GmbH	Düsseldorf	100.00
Greece	Henkel Pelikan Office Products EPE	Koropi	51.00
	Schwarzkopf & Rilken Hellas A.E.E.K.	Athens-Kato Kifissia	74.58
Ireland	Chambois Ltd.	Cork	100.00
Pakistan	Henkel Industrial Adhesives Pakistan Pvt. Ltd.	Karachi	100.00
Slovenia	Henkel-Storitve d.o.o.	Maribor	100.00
USA	Dial Argentina Holdings, Inc.	Phoenix	100.00

Henkel AG & Co. KGaA holds more than 20 percent but not more than 50 percent in the following companies, either directly or indirectly. As the holdings are immaterial to the

net assets, financial position and results of operations of the Group, they are stated at amortized cost:

			Share in percent
Bahrain	Henkel Adhesives Middle East E.C.	Bur Dubai	50.00
Egypt	Henkel Adhesives Trading Egypt SAE	Cairo	50.00
	Henkel Technologies Egypt SAE	Cairo	50.00
Germany	DATASOUND Gesellschaft zur Entwicklung und Vermarktung digitaler Audio- und Informationssysteme mbH	Ludwigshafen	24.98
Great Britain	Ten Lifestyle Management Ltd.	London	36.72
Guatemala	Tanques del Atlántico S.A.	Guatemala City	30.00
Mexico	Hysol Indael de México S.A. de C.V.	Mexico City	49.00
USA	AMT Capital L.P.	Dallas	20.90

Investments in associates:

			Share in percent
Great Britain	Purbond International Holdings Ltd.	Hatfield	50.00
Switzerland	Purbond AG	Neukirch	50.00

(53) Auditor's fees and services

The total fees charged to the Group for the services of the auditor KPMG in fiscal 2008 and 2009 were as follows:

Type of fee in million euros	2008	2009
Audit (including outlays)	11.1	9.8
Other audit-related services	1.7	0.4
Tax advisory services	3.1	2.1
Other services	1.0	0.3
Total	16.9	12.6

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.

Fees for other audit-related services comprise fees for audits in connection with information risk management and audits of compliance with contractual terms and conditions and, in 2008, audit of the opening balance sheets of April 3, 2008 of the National Starch businesses.

Tax advisory services include fees for tax advice relating to employees of Henkel AG & Co. KGaA who live outside Germany and for employees of Henkel sent from Germany to work in Group companies outside Germany (International Executive Services), and for performing tax compliance work for affiliated companies outside Germany. In the year under review, further information gathering and analysis work was additionally performed with respect to the National Starch businesses.

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 601,597,840.27 euros for the year ended December 31, 2009 be applied as follows:

- | | |
|---|-----------------------------|
| a) Payment of a dividend of 0.51 euros per ordinary share on 259,795,875 shares | = 132,495,896.25 euros |
| b) Payment of a dividend of 0.53 euros per preferred share on 178,162,875 shares | = 94,426,323.75 euros |
| c) Carry-forward of the remaining amount of to the following year (retained earnings) | 374,675,620.27 euros |
| | <u>601,597,840.27 euros</u> |

Shares held as treasury stock are not entitled to dividend. The amount in unappropriated profit which relates to the treasury stock held by the corporation at the date of the Annual General Meeting is carried forward to the following year.

Düsseldorf, January 29, 2010

Henkel Management AG
(personally liable partner of Henkel AG & Co. KGaA)

Management Board

Annual financial statements of Henkel AG & Co. KGaA (summarized)¹⁾

Statement of income

in million euros	2008	2009
Sales	3,099	2,971
Cost of sales	-2,217	-2,035
Gross profit	882	936
Selling, research and administrative expenses	-1,330	-1,267
Other income (net of other expenses)	726	403
Operating profit	278	72
Financial result	348	253
Profit on ordinary activities	626	325
Change in special accounts with reserve element	44	18
Earnings before tax	670	343
Taxes on income	-24	-60
Net earnings	646	283
Profit brought forward	220	325
Transfer to retained earnings	-323	-
Transfer from reserve for treasury stock	6	-6
Unappropriated profit²⁾	549	602

Balance sheet

in million euros	2008	2009
Intangible assets and property, plant and equipment	674	729
Financial assets	6,857	8,376
Non-current assets	7,531	9,105
Inventories	213	186
Receivables and miscellaneous assets/Deferred charges	4,528	2,599
Marketable securities	109	109
Liquid funds	40	727
Current assets	4,890	3,621
Total assets	12,421	12,726
Shareholders' equity	4,750	4,809
Special accounts with reserve element	183	165
Provisions	2,590	2,524
Liabilities, deferred income and accrued expenses	4,898	5,228
Total equity and liabilities	12,421	12,726

¹⁾ 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]

²⁾ Statement of income figures are rounded; unappropriated profit: 548,737,876.54 euros for 2008 and 601,597,840.27 euros for 2009

Auditor's report

We have audited the consolidated financial statements prepared by Henkel AG & Co. KGaA, comprising the consolidated balance sheet, the consolidated statement of income, the statement of comprehensive income, the statement of changes in equity, and the consolidated cash flow statement, and the notes to the consolidated financial statements, together with the Group management report for the business year from January 1, 2009 to December 31, 2009. The preparation of the consolidated financial statements and the Group management report in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the additional requirements of German commercial law pursuant to § 315a (1) HGB (German Commercial Code) are the responsibility of the personally liable partner of Henkel AG & Co. KGaA. Our responsibility is to express an opinion on the consolidated financial statements and on the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW) and in supplementary compliance with International Standards on Auditing (ISA). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements prepared in accordance with the applicable financial reporting framework and in the Group management report, are detected with reasonable assurance. Knowledge of the business activities and of the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-

related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in the consolidation, the determination of entities to be included in the consolidation, the accounting and consolidation principles used and significant estimates made by the personally liable partner of the company, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRS as adopted by the European Union and the additional requirements of German commercial law pursuant to § 315a (1) HGB and 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 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 29, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Thomas Sauter
Wirtschaftsprüfer

Michael Gewehr
Wirtschaftsprüfer

Responsibility statement

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 opportu-

nities and risks associated with the expected development of the Group.

Düsseldorf, January 29, 2010

Henkel Management AG
Management Board
Kasper Rorsted,
Thomas Geitner, Dr. Friedrich Stara,
Dr. Lothar Steinebach, Hans Van Bylen

Corporate management of Henkel AG & Co. KGaA

Boards/Memberships as defined by Clause 125 (1) sentence 3 of the German Joint Stock Corporation Act [AktG] as at January 2010

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 of statutory supervisory boards	Membership of comparable supervisory boards
<p>Dr. Simone Bagel-Trah Chair, (Chair since September 23, 2009) Private Investor, Düsseldorf Born in 1969 Member since April 14, 2008</p>	Henkel Management AG	Henkel AG & Co. KGaA (Shareholders' Committee)
<p>Winfried Zander¹⁾ Vice-chair, 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 in 1954 Member since May 17, 1993</p>		
<p>Dr. Friderike Bagel (until April 20, 2009) Attorney at Law/Tax Consultant, Düsseldorf Born in 1971 Member since April 18, 2005</p>		
<p>Jutta Bernicke¹⁾ Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born in 1962 Member since April 14, 2008</p>		
<p>Fritz Franke¹⁾ (until December 31, 2009) Member of the General Works Council of Henkel AG & Co. KGaA and Chairman of the Works Council of Henkel AG & Co. KGaA, Genthin site Born in 1955 Member since April 14, 2008</p>		
<p>Johann-Christoph Frey (since September 23, 2009) Diplom-Kaufmann, Klosters Born in 1955, Member since September 23, 2009</p>		Henkel Ibérica S.A., Spain
<p>Birgit Helten-Kindlein¹⁾ Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born in 1964 Member since April 14, 2008</p>		
<p>Bernd Hinz¹⁾ 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 in 1951 Member since May 4, 1998</p>		

¹⁾ Employee representative

Supervisory Board of Henkel AG & Co. KGaA**Members of the Supervisory Board of Henkel AG & Co. KGaA (continued)**

Members of the Supervisory Board of Henkel AG & Co. KGaA (continued)	Membership of statutory supervisory boards	Membership of comparable supervisory boards
Prof. Dr. sc. nat. Michael Kaschke Member of the Executive Board of Carl Zeiss AG, Oberkochen Born in 1957 Member since April 14, 2008	Siltronic AG, Carl Zeiss Group mandate: Carl Zeiss Microlmaging GmbH (Chair)	Carl Zeiss Group mandates: Carl Zeiss Japan Co. Ltd. (Chair), Carl Zeiss Far East (Chair), Carl Zeiss India Pte. Ltd. (Chair)
Thomas Manchot Private Investor, Düsseldorf Born in 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 in 1961 Member since January 1, 2010		
Thierry Paternot Operating Partner, Duke Street Capital, Paris Born in 1948 Member since April 14, 2008		SGD SA (Chair), France, FullSix International SAS (Chair), France, Bio DS SAS, France
Andrea Pichottka ¹⁾ Secretariat of the General Executive of IG Bergbau, Chemie, Energie, responsible for research/technology, women/equal opportunities, salaried employees, advertising, Hannover Born in 1959 Member since October 26, 2004	Siltronic AG	
Prof. Dr. Theo Siegert (since April 20, 2009) Managing Partner of de Haen-Carstanjen & Söhne, Düsseldorf Born in 1947 Member since April 20, 2009	Deutsche Bank AG, E.ON AG, ERGO AG, Merck KGaA	DKSH Holding Ltd., Switzerland, E. Merck OHG
Konstantin von Unger Founding Partner Blue Corporate Finance, London Born in 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 in 1964 Member since May 4, 1998	BASF SE, K + S AG (Vice-chair), Evonik Steag GmbH (Vice-chair)	

¹⁾ Employee representative

Supervisory Board of Henkel AG & Co. KGaA**Members of the Supervisory Board of Henkel AG & Co. KGaA (continued)****Dr. h.c. Bernhard Walter**

Former Chairman of the Executive Board of Dresdner Bank AG, Frankfurt/Main
Born in 1942
Member since May 4, 1998

Membership of statutory supervisory boards

Bilfinger Berger AG (Chair),
Daimler AG,
Deutsche Telekom AG

Membership of comparable supervisory boards**Dipl.-Ing. Albrecht Woeste**

(Chair and member until September 22, 2009)
Private Investor, Düsseldorf
Born in 1935
Member since June 27, 1988

Henkel Management AG

Henkel AG & Co. KGaA
(Shareholders' Committee)

Ulf Wentzien¹⁾

Diplom-Kaufmann, Düsseldorf
Representative of the Senior Staff of Henkel AG & Co. KGaA
Born in 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 proposals to be presented to the Annual General Meeting on the election of members of the Supervisory Board (shareholder-representative members).	Dr. Simone Bagel-Trah, Chair (member since April 20, 2009, Chair since Sept. 23, 2009) Dr. Friderike Bagel (until April 20, 2009) Dr. h.c. Bernhard Walter Konstantin von Unger (since September 23, 2009) Dipl.-Ing. Albrecht Woeste (Chair and member until September 22, 2009)
Audit Committee	The Audit Committee prepares the discussions and resolutions of the Supervisory Board relating to the approval of the annual financial statements and the consolidated financial statements, and relating to ratification of the proposal to be put before the Annual General Meeting regarding appointment of the auditor. It also deals with accountancy, risk management and compliance issues.	Dr. h.c. Bernhard Walter, Chair Prof. Dr. Theo Siegert (since April 20, 2009), Vice-chair Dr. Friderike Bagel (until April 20, 2009) Dr. Simone Bagel-Trah (since September 23, 2009) Birgit Helten-Kindlein Michael Vassiliadis Dipl.-Ing. Albrecht Woeste (until September 22, 2009) Winfried Zander

Shareholders' Committee of Henkel AG & Co. KGaA

Members of the Shareholders' Committee of Henkel AG & Co. KGaA	Membership of statutory supervisory boards	Membership of comparable supervisory boards
Dr. Simone Bagel-Trah Chair, (Vice-chair until September 18, 2009) Private Investor, Düsseldorf Born in 1969 Member since April 18, 2005	Henkel AG & Co. KGaA, Henkel Management AG	
Dr. h.c. Christoph Henkel Vice-chair, Managing Partner Canyon Equity LLC, London Born in 1958 Member since May 27, 1991		
Dr. Paul Achleitner Member of the Executive Board of Allianz SE, Munich Born in 1956 Member since April 30, 2001	Bayer AG, RWE AG, Allianz Group mandates: Allianz Deutschland AG, Allianz Global Investors AG	
Boris Canessa (since September 19, 2009) Private Investor, Düsseldorf Born in 1963 Member since September 19, 2009	Wilhelm von Finck AG	
Stefan Hamelmann Private Investor, Düsseldorf Born in 1963 Member since May 3, 1999	Henkel Management AG	
Dr. h.c. Ulrich Hartmann Chairman of the Supervisory Board of E.ON AG, Düsseldorf Born in 1938 Member since May 4, 1998	Deutsche Lufthansa AG, E.ON AG (Chair)	
Prof. Dr. Ulrich Lehner Former Chairman of the Management Board of Henkel KGaA, Düsseldorf Born in 1946 Member since April 14, 2008	Deutsche Telekom AG (Chair), E.ON AG, Henkel Management AG, HSBC Trinkaus & Burkhardt AG, Porsche Automobil Holding SE, Dr. Ing. h.c. F. Porsche AG, ThyssenKrupp AG	Dr. August Oetker KG, Novartis AG, Switzerland
Konstantin von Unger Founding Partner, Blue Corporate Finance, London Born in 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 in 1941 Member since May 6, 2002		Akzo Nobel N.V., Netherlands, Heineken Holding N.V., Netherlands, ING Groep N.V., Netherlands, Tom Tom N.V., Netherlands
Werner Wenning Chairman of the Executive Board of Bayer AG, Leverkusen Born in 1946 Member since April 14, 2008	Deutsche Bank AG, E.ON AG, HDI V.a.G., Talanx AG	

Shareholders' Committee of Henkel AG & Co. KGaA**Members of the Shareholders' Committee of Henkel AG & Co. KGaA (continued)****Dipl.-Ing. Albrecht Woeste**

(Chair and member until September 18, 2009)

Private Investor, Düsseldorf

Born in 1935

Member since June 14, 1976

Membership of statutory supervisory boardsHenkel AG & Co. KGaA,
Henkel Management AG**Membership of comparable supervisory boards****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 and risk management in the company.	Dr. h.c. Christoph Henkel, Chair Stefan Hamelmann, Vice-chair Dr. Paul Achleitner Dr. h.c. Ulrich Hartmann Prof. Dr. Ulrich Lehner
Human Resources Subcommittee	The Human Resources Subcommittee deals principally with personnel matters for members of the Management Board, issues relating to the human resources strategy, and remuneration.	Dr. Simone Bagel-Trah, Chair Konstantin von Unger, Vice-chair Boris Canessa (since September 19, 2009) Karel Vuursteen Werner Wenning Dipl.-Ing. Albrecht Woeste (until September 18, 2009)

Personally Liable Partner of Henkel AG & Co. KGaA**Henkel Management AG**

Düsseldorf,
Commercial Register HRB 58139,
District Court of Düsseldorf

Management Board of Henkel Management AG**Members of the Management Board of Henkel Management AG****Membership of statutory supervisory boards****Membership of comparable supervisory boards****Kasper Rorsted**

Chairman,
Human Resources/Infrastructure Services
Born in 1962
Member since February 15, 2008
(Member of the Management Board of
Henkel KGaA: April 1, 2005 – April 14, 2008)

Cable & Wireless, Plc., Great Britain,
Danfoss A/S, Denmark,
Henkel Norden AB, Sweden

Thomas Geitner

Adhesive Technologies
Born in 1955
Member since March 1, 2008
(Member of the Management Board of
Henkel KGaA: March 1, 2008 – April 14, 2008)

Singulus Technologies AG, Germany,
Pages Jaunes Groupe, France,
BBC Worldwide Ltd., Great Britain

Henkel Corp. (Chair), USA

Dr. Friedrich Stara

Laundry & Home Care
Born in 1949
Member since February 15, 2008
(Member of the Management Board of
Henkel KGaA: July 1, 2005 – April 14, 2008)

The Dial Corp. (Chair), USA,
Wiener Städtische Allgemeine
Versicherung AG, Austria

Dr. Lothar Steinebach

Finance/Purchasing/IT/Legal
Born in 1948
Member since February 15, 2008
(Member of the Management Board of
Henkel KGaA: July 1, 2003 – April 14, 2008)

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
(Chair), Austria,
Henkel Consumer Goods Inc. (Chair), USA,
Henkel Ltd., Great Britain,
Henkel of America Inc. (Chair), USA,
Henkel Technologies Egypt SAE, Egypt,
Türk Henkel Kimya Sanayi ve Ticaret AS
(Chair), Turkey

Hans Van Bylen

Cosmetics/Toiletries
Born in 1961
Member since February 15, 2008
(Member of the Management Board of
Henkel KGaA: July 1, 2005 – April 14, 2008)

Henkel Belgium N.V., Belgium,
Henkel Nederland B.V., Netherlands

Supervisory Board of Henkel Management AG**Members of the Supervisory Board of Henkel Management AG****Membership of statutory supervisory boards****Membership of comparable supervisory boards****Dr. Simone Bagel-Trah**

Chair,
(Vice-chair until September 18, 2009)
Private Investor, Düsseldorf
Born in 1969
Member since February 15, 2008

Henkel AG & Co. KGaA

Henkel AG & Co. KGaA
(Shareholders' Committee)

Stefan Hamelmann

(since September 19, 2009)
Vice-chair,
Private Investor, Düsseldorf
Born in 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 in 1946
Member since February 15, 2008

Deutsche Telekom AG (Chair),
E.ON AG,
HSBC Trinkaus & Burkhardt AG,
Porsche Automobil Holding SE,
Dr. Ing. h.c. F. Porsche AG,
ThyssenKrupp AG

Henkel AG & Co. KGaA
(Shareholders' Committee),
Dr. August Oetker KG,
Novartis AG, Switzerland

Dipl.-Ing. Albrecht Woeste

(Chair and member until September 18, 2009)
Private Investor, Düsseldorf
Born in 1935
Member from February 15, 2008

Henkel AG & Co. KGaA

Henkel AG & Co. KGaA
(Shareholders' Committee)

Further information

Corporate Senior Vice Presidents**Jan-Dirk Auris**

Adhesive Technologies –
Asia-Pacific

Bertrand Conquéret

Global Purchasing

Thomas Gerd Kühn

Legal, IP, Insurance

Dr. Matthias Schmidt

Adhesive Technologies –
Financial Director

Prof. Dr. Ramón Bacardit

Adhesive Technologies –
Research

Jean Fayolle

Adhesive Technologies –
Packaging, Consumer Goods and
Construction Adhesives SBU

Dr. Marcus Kuhnert

Laundry & Home Care –
Financial Director
(since January 1, 2010)

Stefan Sudhoff

Cosmetics/Toiletries –
Central & Eastern Europe/CIS/North
& Latin America Regions and
Body Care SBU

Georg Baratta-Dragono

Laundry & Home Care –
Germany
(since January 1, 2010)

Enric Holzbacher

Adhesive Technologies –
Western Europe/Central Eastern
Europe/MEA Regions and
Consumer & Craftsmen Adhesives/
Building Adhesives SBU

Andreas Lange

Laundry & Home Care –
Western Europe Region

Alan Syzdek

Adhesive Technologies –
Global Electronic Materials
Business

Alain Bauwens

Laundry & Home Care –
Business Development and
MENA/Asia-Pacific/Central America
Regions

Dr. Joachim Jäckle

Financial Operations

Kathrin Menges

Human Resources
(since November 1, 2009)

Günter Thumser

Henkel Central Eastern Europe

Wolfgang Beynio

Finance/Controlling

Carsten Knobel

Cosmetics/Toiletries –
Financial Director and
Finance, Corporate Controlling

Tina Müller

Cosmetics/Toiletries –
Hair, Skin & Oral Care SBU

Carsten Tilger

Corporate Communications
(from March 1, 2010)

Dr. Andreas Bruns

Infrastructure Services

Dirk-Stephan Koedijk

Chief Compliance Officer

Prof. Dr. Thomas Müller-Kirschbaum

Laundry & Home Care –
R&D/Technology/Supply Chain

Christian-André Weinberger

Laundry & Home Care –
Global Marketing & Sustainability

Brad Casper

Dial Corporation North America and
Henkel Consumer Goods, Inc.

Norbert Koll

Cosmetics/Toiletries –
Schwarzkopf Professional

Bruno Piacenza

Cosmetics/Toiletries –
Southern/Western Europe/MENA/
Asia-Pacific Regions, Export

Dr. Peter Wroblowski

Information Technology

Julian Colquitt

Adhesive Technologies –
North America

At January 2010

SBU = Strategic Business Unit

Management Circle I Worldwide

Giacomo Archi	Steven Essick	Jayant Kumar Singh	Dr. Berthold Schreck
Faruk Arig	Charles Evans	Luis Carlos Lacorte	Prof. Dr. Hans-Willi Schroiff
Thomas Hans Jörg Auris	Sam Ewe	Daniel Langer	Jens-Martin Schwärzler
Francisco Beltran	Thomas Feldbrügge	Tom Linckens	Dr. Johann Seif
Paul Berry	Dr. Peter Florenz	Oliver Luckenbach	Brian Shook
Cedric Berthod	Dr. Thomas Förster	Dr. Klaus Marten	Dr. Simone Siebeke
Amy Bloebaum	Timm Rainer Fries	Lutz Mehlhorn	Dr. Walter Sterzel
Dr. Joachim Bolz	Stephan Fuesti-Molnar	Scott Moffitt	Klaus Strottmann
Oriol Bonaclocha	Holger Gerdes	Alfredo Morales	Monica Sun
Guy Boone	Roberto Gianetti	Dr. Heinrich Müller	Marco Swoboda
Robert Bossuyt	Dr. Karl W. Gladt	Julio Muñoz Kampf	Dr. Boris Tasche
Hanno Brenningmeyer	Ralf Grauel	Liam Murphy	Richard Theiler
Daniel Brogan	Peter Günther	Christoph Neufeldt	Greg Tipsord
Beat Buser	Peter Hassel	Joseph O'Brien	Thomas Tönnemann
Sergey Bykovskikh	Andreas Haupt	Bjoerk Ohlhorst	Patrick Trippel
Edward Capasso	Roswitha Heiland	Michael Olosky	Tracy Van Bibber
Michelle Cheung	Georg Höbenstreit	Dr. Uwe Over	Amelie Vidal-Simi
Jürgen Convent	Dr. Alois Hoeger	Ian Parish	Dr. Vincenzo Vitelli
Susanne Cornelius	Dr. Dirk Holbach	Campbell Peacock	Douglas Weekes
Nils Daecke	Jos Hubin	Jerry Perkins	Ulf Wentzien
Paul de Bruecker	Dr. Stefan Huchler	Jeffrey Piccolomini	Dr. Jürgen Wichelhaus
Ivan de Jonghe	Jeremy Hunter	Michael Prange	Dr. Hans-Christof Wilk
Patrick de Meyer	Will Jacobs	Dr. Volker Puchta	Dorian Williams
Joseph Debiase	Dr. Regina Jäger	Michael Rauch	Dr. Rudolf Wittgen
Hermann Deitzer	Patrick Kaminski	Gary Raykowitz	
Nicola delli Venneri	Peter Kardorff	Birgit Rechberger-Krammer	
Serge Delobel	Thomas Keller	Dr. Michael Reuter	
Raymond Dimuzio	Klaus Keutmann	Robert Risse	
Dr. Alexander Ditze	Paul Kirsch	Dr. Michael Robl	
Eric Dumez	Dr. Christian Kirsten	Jean Baptiste Santoul	
Christof Eibel	Dr. Wolfgang Klauck	Dr. Arndt Scheidgen	
Wolfgang Eichstaedt	Nurierdem Kocak	Rolf Schlue	
Ashraf El Affi	Dr. Harald Köster		At January 2010

Quarterly breakdown of key financials

in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Sales										
Laundry & Home Care	1,031	1,013	1,012	1,058	1,068	1,035	1,061	1,023	4,172	4,129
Cosmetics/Toiletries	708	720	779	790	770	764	759	736	3,016	3,010
Adhesive Technologies	1,364	1,469	1,816	1,582	1,860	1,630	1,660	1,543	6,700	6,224
Corporate	59	56	61	55	62	56	61	43	243	210
Henkel Group	3,162	3,258	3,668	3,485	3,760	3,485	3,541	3,345	14,131	13,573
Cost of sales	-1,687	-1,814	-2,149	-1,906	-2,188	-1,882	-2,166	-1,809	-8,190	-7,411
Gross profit	1,475	1,444	1,519	1,579	1,572	1,603	1,375	1,536	5,941	6,162
Marketing, selling and distribution expenses	-920	-948	-1,063	-1,007	-1,039	-1,002	-971	-969	-3,993	-3,926
Research and development expenses	-86	-99	-98	-103	-149	-99	-96	-95	-429	-396
Administrative expenses	-166	-183	-254	-191	-214	-196	-191	-165	-825	-735
Other operating charges and income	17	4	9	1	21	-16	38	-14	85	-25
EBIT										
Laundry & Home Care	100	107	92	119	117	137	130	138	439	501
Cosmetics/Toiletries	87	91	98	100	96	99	95	97	376	387
Adhesive Technologies	150	47	192	95	169	89	147	59	658	290
Corporate	-17	-27	-269	-35	-191	-35	-217	-1	-694	-98
Henkel Group	320	218	113	279	191	290	155	293	779	1,080
Investment result	19	-	24	-4	24	-	1,056	-	1,123	-4
Net interest	-38	-52	-84	-56	-72	-40	-81	-43	-275	-191
Financial result	-19	-52	-60	-60	-48	-40	975	-43	848	-195
Earnings before tax	301	166	53	219	143	250	1,130	250	1,627	885
Taxes on income	-78	-45	-11	-69	-36	-70	-269	-73	-394	-257
Net earnings	223	121	42	150	107	180	861	177	1,233	628
Minority interests	-4	-4	-4	-7	-6	-8	2	-7	-12	-26
Earnings after minority interests	219	117	38	143	101	172	863	170	1,221	602
Earnings per preferred share in euros	0.51	0.28	0.09	0.33	0.23	0.39	2.00	0.39	2.83	1.40

in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
EBIT (as reported)	320	218	113	279	191	290	155	293	779	1,080
One-time gains	-8	-3	-3	-	-	-	-19	-6	-30	-9
One-time charges	-	4	6	4	19	46 ¹⁾	23	80	48	134
Restructuring charges	6	16	256	25	181	71	220	47	663	159
Adjusted EBIT	318	235	372	308	391	407	379	414	1,460	1,364
Adjusted earnings per preferred share in euros	0.51	0.31	0.52	0.37	0.59	0.59	0.57	0.64	2.19	1.91

¹⁾ Including 22 million euros in one-time charges arising from revaluation of an onerous purchase contract

The quarterly figures are specific to the quarter to which they refer and have been rounded for commercial convenience.

Five-year summary

in million euros	2005	2006	2007	2008 ⁴⁾	2009	
Sales	11,974	12,740	13,074	14,131	13,573	
Operating profit (EBIT)	1,162	1,298	1,344	779	1,080	
Earnings before tax	1,042	1,176	1,250	1,627	885	
Net earnings	770	871	941	1,233	628	
Earnings after minority interests	757	855	921	1,221	602	
Earnings per preferred share (EPS) ¹⁾	in euros	1.77	1.99	2.14	2.83	1.40
Total assets	13,944	13,346	13,048	16,173	15,787	
Non-current assets	9,065	8,664	7,931	11,360	11,158	
Current assets	4,879	4,682	5,117	4,813	4,629	
Liabilities	8,545	7,799	7,342	9,539	9,274	
Shareholders' equity	5,399	5,547	5,706	6,535	6,513	
Equity ratio	in %	38.7	41.6	43.7	40.3	41.4
Net return on sales ²⁾	in %	6.4	6.8	7.2	8.7	4.7
Return on equity ³⁾	in %	17.7	16.1	17.0	21.6	9.6
Dividend per ordinary share	in euros	0.43	0.48	0.51	0.51	0.51 ⁵⁾
Dividend per preferred share	in euros	0.45	0.50	0.53	0.53	0.53 ⁵⁾
Total dividends	193	214	227	227	227 ⁵⁾	
Capital expenditures (including financial assets)	1,119	897	548	4,074	415	
Investment ratio	as % of sales	9.3	7.0	4.2	28.8	3.0
Research and development costs	324	340	350	429	396	
Number of employees (annual average)	51,724	51,716	52,303	55,513	51,361	
of which in Germany	10,264	9,995	9,899	9,892	9,397	
of which abroad	41,460	41,721	42,404	45,621	41,964	

¹⁾ Basis: share split (1:3) of June 18, 2007

²⁾ Net earnings / sales

³⁾ Net earnings / shareholders' equity at the start of the year

⁴⁾ Adjusted following finalization of purchase price allocation relating to the acquisition of the National Starch businesses

⁵⁾ Proposed

Credits

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This document contains forward-looking statements which are based on the current estimates and assumptions made by the corporate management of Henkel AG & Co. KGaA. Forward-looking statements are characterized by the use of words such as expect, intend, plan, predict, assume, believe, estimate, anticipate and similar formulations. Such statements are not to be understood as in any way guaranteeing that those expectations will turn out to be accurate. Future performance and the results actually achieved by Henkel AG & Co. KGaA and its affiliated companies depend on a number of risks and uncertainties and may therefore differ materially from the forward-looking statements. Many of these factors are outside Henkel's control and cannot be accurately estimated in advance, such as the future economic environment and the actions of competitors and others involved in the marketplace. Henkel neither plans nor undertakes to update forward-looking statements.

Financial calendar

**Annual General Meeting
Henkel AG & Co. KGaA 2010:
Monday, April 19, 2010**

**Publication of Report
for the First Quarter 2010:
Wednesday, May 5, 2010**

**Publication of Report
for the Second Quarter / Half Year 2010:
Wednesday, August 4, 2010**

**Publication of Report
for the Third Quarter / Nine Months 2010:
Wednesday, November 10, 2010**

**Press Conference and Analysts' Conference
for Fiscal 2010:
Thursday, February 24, 2011**

**Annual General Meeting
Henkel AG & Co. KGaA 2011:
Monday, April 11, 2011**

Up-to-date facts and figures on Henkel also
available on the internet: www.henkel.com



The motto of this report "A global team – winning together" is also reflected in the visual we have selected for our cover. The world globe is made up of photos of 137 employees representing the diversity, inclusion and internationality integral to Henkel's corporate culture.

From the left

Top row Anne Baerens, Nastassja Weyergraf, Renate Rauschil, Randy Reginelli, Burcu Devrim Avcı, Hui Jin

Second row Karin Döring, Dr. Mustafa Akram, Evelyn Schulte-Steffens, Simone Schuster, Jari Tuomikoski, Marion Lauterbach, Andreas Kopp, Alexandra Hnila, Katja Kremling

Third row Frank Tenbrock, Dirk Antkowiak, Thomas Geister, Silvio Mario Claudio Garavoglia, Herbert Pega, Dr. Inga Vockenroth, Dr. Andreas Bauck, Robert K. Cecilio, Rushikesh Apte, Richard J. Alhage

Fourth row Carlos Enrique Alvarez, Henrik Anserin, Lori Pasterski, Julio Muñoz Kampff, Fernando Pardal, Mileva Mircevska, Claudia Betcke, Carmen Klann, Emmanuel Nweke, Klaus Unützer, Ashok Konduskar, Jeremy Hunter

Fifth row Daniela Schoening, Federica Berardo, Alain-François Dabreteau, Helmut Peters, Gerald Anthofer, Anthony Lallier, Jojo Wilfred, Tadahiko Morihana, Vivian Yang, Manuel Aguarales Navarro, Wenwen Liao, Vijay Swaminathan, Cornelia Heinrichs

Sixth row Alfred Tuchlinski, Deborah De Andrés Presa, Esteban Gonzalez Jr., Antje Anders, William C. Zeiler, Eliane Emond, Dr. Jianping Liu, Gaetano Cappello

Seventh row Dr. Regina Jäger, Petra Prodöhl, Stacey Brown, William A. Simmons, Regis Rogge, Claudia Kurschat, Andrew Powers, Dr. Karl-Heinz Ott, Lilian Fiorino Llorca

Eighth row Justina Vaitkute, Kai Schmidhuber, Laura Magnani, Dr. Shabbir T. Attarwala, Nadine-Tanja Kummer, Gürsel Ceyhan, Lisa Chen, Grégory Vuillemin, Setareh Alaeddini, Marie-Laure Marduel

Ninth row Dr. Birgit Veith, Dr. Ciaran McArdle, Esther Kumpan, Rolf Müller-Grünow, Melisa Haracic, Kee How Tan, Matthew Greaves, Günther Lambertz, Sabine Hilberath, Janine Lintzen, Fadl Abowafia, Ulrike Beck, Mana Sasaki

Tenth row Housseem Bahri, Omar El Masry, Csaba Szendrei, Roberto Gianetti, Lassaâd Karray, Béatrice Billot, Dr. Eva Sewing, Beatrice Jones, Ricardo Serrano, Mireia Martínez de la Torre, Christopher W. Sommer, Asli Cobbers

Eleventh row Lien Tran, Melanie Hempel, Diane Montgomery, Aurida Ouchenir, Michael Kellner, Verena Frings, Stephanie Gerth, Annegret Bredemeier, Roswitha Welter, Petra Beer-Michaud, Anna Sundström, Axel Christian Funke

Twelfth row Tanja Kreisel, Dr. Marianne Waldmann-Laue, Dr. Rainer Simmering, Dr. Andrea Sättler,

Jan-Dirk Seiler-Hausmann, Oliver Baldauf, Kate Yeo, Emiliano Mroue, Giannicola Fazio, Praneet Chamroensrisakul

Thirteenth row Dr. Marc-Steffen Schiedel, Holger Scheufen, Dr. Simone Siebeke, Laurent Le Dur, Stefan Krzikawski, Julia Kirchheim, Michael J. Starzman, Kiem Ho, Petra Spallek

Bottom row Siiri Odrats-Koni, Michael J. Terhardt, Dr. Christian Hebler, Robert Risse



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