

Annual Report 2008

Henkel

A *Brand like a friend*

Driving Change

Performance at a Glance

Key Financials

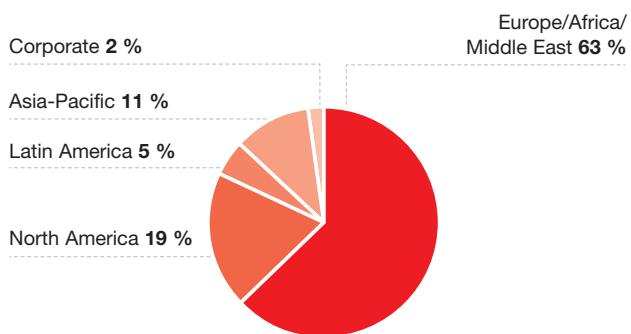
	2007	2008	+/-
Sales	13,074	14,131	8.1 %
Operating profit (EBIT)	1,344	779	-42.0 %
Return on sales (EBIT) in %	10.3	5.5	-4.8 pp
Net earnings	941	1,233	31.0 %
Earnings after minority interests	921	1,221	32.6 %
Earnings per preferred share in euros	2.14	2.83	32.2 %
Return on capital employed (ROCE) in %	15.4	6.9	-8.5 pp
Capital expenditures on property, plant and equipment	470	473	0.6 %
Research and development expenses	350	429 ¹⁾	22.6 %
Employees (annual average) number	52,303	55,513	6.1 %
Dividend per ordinary share in euros	0.51	0.51 ²⁾	0.0 %
Dividend per preferred share in euros	0.53	0.53 ²⁾	0.0 %

¹⁾ Includes restructuring charges of 52 million euros²⁾ Proposed³⁾ Adjusted for one-time charges/gains and restructuring charges

Highlights

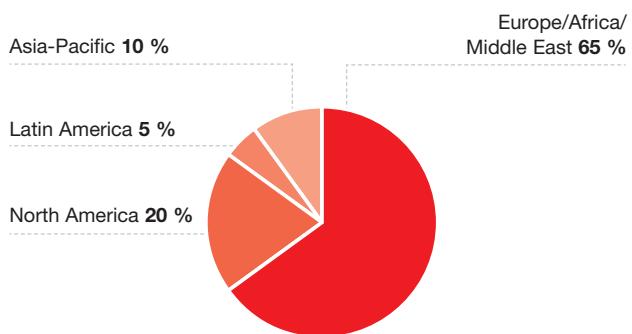
- » Organic sales growth: +3.0 percent
- » Share of sales attributable to growth regions: +3 percentage points to 37 percent
- » Adjusted³⁾ operating profit (EBIT): +6.6 percent to 1,460 million euros
- » Adjusted³⁾ operating profit (EBIT) before amortization after purchase price allocation: +9.1 percent to 1,495 million euros
- » Adjusted³⁾ earnings per preferred share (EPS) before amortization after purchase price allocation: +3.2 percent to 2.26 euros

Sales by Region¹⁾



¹⁾ Including Corporate; for reconciliation with Henkel Group:
Corporate = sales and services not assignable to the individual business sectors

EBIT by Region²⁾



²⁾ Excluding Corporate

Laundry & Home Care

Key Financials

	2007	2008	+/-
Sales	4,148	4,172	0.6 %
Share of Group sales	32 %	30 %	-2 pp
Operating profit (EBIT)	459	439	-4.2 %
Share of Group EBIT ¹⁾	31 %	30 %	-1 pp
Return on sales (EBIT)	11.1 %	10.5 %	-0.6 pp

¹⁾ Excluding Corporate
pp = percentage points

Cosmetics/Toiletries

Key Financials

	2007	2008	+/-
Sales	2,972	3,016	1.5 %
Share of Group sales	23 %	21 %	-2 pp
Operating profit (EBIT)	372	376	0.9 %
Share of Group EBIT ¹⁾	26 %	25 %	-1 pp
Return on sales (EBIT)	12.5 %	12.5 %	0 pp

¹⁾ Excluding Corporate
pp = percentage points

Adhesive Technologies

Key Financials

	2007	2008	+/-
Sales	5,711	6,700	17.3 %
Share of Group sales	43 %	47 %	4 pp
Operating profit (EBIT)	621	658	6.0 %
Share of Group EBIT ¹⁾	43 %	45 %	2 pp
Return on sales (EBIT)	10.9 %	9.8 %	-1.1 pp

¹⁾ Excluding Corporate
pp = percentage points

Henkel at a Glance

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



- » *Globally structured*
- » *More than 125 countries*
- » *Over 55,000 employees*

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 both North America and the growth regions

Cosmetics/Toiletries

Leading market positions worldwide

Achieving profitable growth with attractive 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

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

Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful

Laundry & Home Care

Major Brands



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.

Major Innovations



Purex Natural Elements Outstanding performance and ready biodegradability with wash-active substances based exclusively on renewable raw materials with natural fragrance essences.

Persil Gold Plus The “gold standard” among laundry detergents for optimum stain-free results without the need for an additional stain remover.

Terra Activ Combining power and nature for high-performance quality without the compromise: 85 percent of the ingredients are based on renewable raw materials and the exclusive use of palm kernel oil certificates to promote rainforest protection.

Cosmetics/Toiletries

Major Brands



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

Major Innovations



Taft Power with Cashmere Touch for supple “power hold”: An innovative styling line offering extra-strong hold combined with cashmere-like suppleness.

Dial Yogurt The first body wash in the USA with yogurt proteins – retains moisture and cares for the skin.

Blond Me The all-inclusive blinding line for every requirement – the first integrated concept for the professional hair salon with blonde products for highlighting, coloration, care and styling.

Adhesive Technologies

Major Brands



Adhesive and sealant systems; surface treatment products for industrial applications in the automotive, packaging, aircraft, electronics, durable consumer 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



Loctite Flex Gel Instant Adhesive The flexible instant adhesive for super-strong, fast bonding inside and out.

Macromelt OM 648 The first polyamide hotmelt adhesive with integrated UV protection extensively based on renewable raw materials.

TecTalis An innovative technology for the environmentally sound corrosion protection of metals in the automotive and durable consumer goods industries.

Seeing change as an opportunity.
 Everything changes: requirement profiles, customer needs, consumer behavior, markets and much more. Henkel has both the strength and the courage to respond quickly to change. We are determined to be the best for our markets and our customers, and are dedicated to achieving – together with them – ever better results. With our 55,000-plus employees and with our brands and products, we are **driving change**.

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“We’re driving change”

Albrecht Woeste, Chairman of the Shareholders’ Committee and of the Supervisory Board, and Kasper Rorsted, Chairman of the Management Board, talk about events in 2008 and the outlook for 2009



Dipl.-Ing. Albrecht Woeste (left) and Kasper Rorsted

Mr. Woeste, 2008 was an unusual year for Henkel in many respects. Are you happy with the way things have gone?

Albrecht Woeste: I am more than happy. It was, after all, not an easy year. The substantial distortions on the financial markets have carried over to the economy as a whole, impacting our markets. But we were able to defend our positions very well in this difficult environment, as our figures show. On behalf of everyone, I would like to thank all our employees for the outstanding team performance that they have delivered.

Mr. Rorsted, what in your view were the major challenges that Henkel faced?

Kasper Rorsted: Well, the main problem was the raw material prices. They reached their peak around the middle of the year, and have since declined significantly. Looking at the year as a whole, however, our raw material costs have risen appreciably. We were also confronted with substantial currency fluctuations, and the US dollar was particularly volatile. And then, toward the end of the year, we too of course began to feel the onset of the economic crisis.

Within the uncertainties of the present economic environment, you have developed and announced a long-term strategy and financial targets for 2012. What is the reasoning behind this?

Kasper Rorsted: We are convinced that, particularly in times of uncertainty, it is important to set out clear objectives for the longer term. To this end we have identified three strategic priorities:

- » First, we want to achieve our full business potential. By streamlining our portfolio, assigning more resources to strengthening our top brands, and further developing our innovative strengths, we will be able to grow more quickly and profitably in the coming years.
- » Second, we intend to focus even more on our customers: We want to grow with them. And that will only be possible if we are able to offer them the right solutions to their problems and consistently satisfy their needs.
- » And third, we want to strengthen our global team: We aim to further extend the internationality, the diversity and the knowledge base of our employees. After all, our employees have been driving our success for the last 132 years, and it is upon them that our future performance relies.

And what are the medium-term financial targets that Henkel intends to reach by following these strategic priorities?

Kasper Rorsted: We have set ourselves an ambitious set of targets: We aim to achieve an organic sales growth rate averaging 3 to 5 percent per year between now and 2012. We want to increase adjusted return on sales to 14 percent. Plus, the average rate of growth in adjusted earnings per preferred share is to exceed 10 percent per year.

And we made a number of major changes and strategic decisions in 2008 to set us on our way toward achieving these objectives.

How did the individual regions and markets perform last year?

Kasper Rorsted: Generally, business was more difficult in North America and Western Europe than in previous years. On the other hand, our businesses in Eastern Europe, the Middle East, Africa, Latin America and Asia continued to post strong growth in both sales and profits. Of course, recently here too there has been a degree of deceleration in the previously rapid pace of development.

Albrecht Woeste: So it is all the more gratifying that we have once again succeeded with our three business sectors in growing faster than our respective markets.

Fiscal 2008 was a highly successful year for our Cosmetics/Toiletries division. The Laundry & Home Care business sector was able to consolidate and in some cases even expand its market shares, although its profitability was heavily impacted by raw material increases. And Adhesive Technologies has been strategically strengthened, extending its leading positions in the world.

What are the specifics of your development over 2008?

Kasper Rorsted: We increased sales by 8.1 percent to 14.1 billion euros, with organic sales growth coming in at 3 percent. Adjusted¹⁾ operating profit rose by 9.1 percent to 1.5 billion euros, and adjusted¹⁾ earnings per preferred share increased by 3.2 percent to 2.26 euros. So we delivered on our guidance.

¹⁾ Editorial note: Adjusted for one-time gains/charges and restructuring charges and before amortization of intangible assets arising from the acquisition of the National Starch businesses

Albrecht Woeste: With this as our basis, we intend to propose to the Annual General Meeting that it approve an unchanged dividend of 0.53 euros per preferred share and 0.51 euros per ordinary share.

What were the key factors contributing to your success last year?

Kasper Rorsted: We successfully launched a number of innovations onto the market and further improved numerous formulations. And we succeeded in partially offsetting the higher raw material costs with price adjustments of our own.

We also managed to further expand our presence in the growth markets of the world. These now contribute

37 percent of our total sales. These regions will also be the growth drivers for Henkel in the future. However, we likewise strengthened our position in the mature markets.

We also responded quickly to the early signs of a worsening market environment. In fact, we introduced a global efficiency enhancement program back at the beginning of 2008 with a view to strengthening Henkel's overall competitiveness.

Albrecht Woeste: A year ago, the initial response of some to this initiative was somewhat skeptical. Today we are being praised for our far-sightedness. By acting early, we have been able to make the jobs of our more than 55,000 employees more secure.

With regard to planning for the future, no doubt the largest acquisition in the 132 years of Henkel's corporate history could also be viewed as an undertaking for the longer term. And it was a decision, Mr. Woeste, that not just the members of the Management Board but also those of the Shareholders' Committee and the Supervisory Board had to think long and hard about, one presumes?

Albrecht Woeste: To be sure. At the beginning of April, Henkel acquired the Adhesives and Electronic Materials businesses of the National Starch & Chemical Company from



Akzo Nobel for a purchase price of 3.7 billion euros. As a result, we were able to further extend and strengthen our already favorable position in the adhesives, sealants and surface treatment market. These two former National Starch divisions have increased the size of our Adhesive Technologies business sector by around one third.

In order to finance this acquisition, we sold our stake in Ecolab in the USA at the end of last year.

And how well has Henkel been able to digest this, your largest ever acquisition?

Kasper Rorsted: Very well. We are well on the way to realizing all the identified synergy potential at the rate and level initially planned. In quickly and smoothly merging the two operations, we have also managed to create an even stronger team than before.

Talking of “strengthening the team”, how do you motivate employees in turbulent times such as these?

Kasper Rorsted: Through a mix of challenge and reward. That means giving clear and open feedback, properly recognizing good work and drafting individual development plans. It is an approach that helps us ensure that we have a skilled and motivated team to meet the challenges of the marketplace. And the diversity of our global team gives us a competitive advantage that we intend to further extend.

Henkel also has a competitive edge in terms of its good reputation on the sustainability front. Is that something that a company can only really afford during the good times, financially and economically speaking?

Albrecht Woeste: Absolutely not. Sustainability and corporate social responsibility count among Henkel's core competences. In this area we are among the most recognized companies in the world. And we want to continue taking the lead. We are still working hard on our sustainability initiatives – such as the “Quality and Responsibility” campaign initiated by our Laundry & Home Care business sector. The positive impact of sustainable development is not economy-dependent. The benefits are there and remain tangible in both good and bad times.



Kasper Rorsted: And this is why last year we announced another set of ambitious sustainability targets for 2012. We want to extensively reduce energy and water consumption, and to further cut waste and the number of occupational accidents. We have also made it our policy to ensure that every newly launched product makes a positive contribution toward sustainable development. And we will be leveraging our sustainability credentials to even greater effect in the future.

And no doubt you will be doing this in close cooperation with your customers?

Kasper Rorsted: Of course. Our customers are at the center of everything we do. Our aim is to align our collaboration more than ever before to what they need, and to offer them products and services that offer measurable value added. We are specifically channeling our capabilities, such as our proven competence in sustainability as just mentioned, in order to generate enhanced benefit for our customers. This is one of the reasons why we have declared 2009 our “Year of the Customer”.

Talking of 2009 – what kind of year is that likely to be for Henkel?

Kasper Rorsted: Large sections of the global economy are in recession and any normalization in the world's financial markets is likely to be long in coming. However, we are well equipped to weather the storm. Our three business sectors are exceptionally well positioned, we can now point to a strong presence in the growth regions, we are focusing our innovative strengths on product segments offering high margins, we are reducing costs right across the board and our finances are solid.

Although 2009 is unlikely to be easy for Henkel, it will not be a “lost” year. At the end we want to be able to say that 2009 was an important milestone in the achievement of our strategic goals.

Albrecht Woeste: We should not finish without first discharging a debt of gratitude. We would like to take this opportunity to express our thanks to the members of our corporate bodies – the Supervisory Board and the Shareholders' Committee – for their carefully considered, constructive advice and invaluable support.

We also want to thank 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 trust in our company, in our brands and in our technologies. And not least, we must express our thanks to our 55,000 employees who again achieved remarkable results in 2008. Together, we're driving change worldwide.

Report of the Supervisory Board

Dear Shareholders,

In the course of fiscal 2008, the Supervisory Board performed the duties incumbent upon it according to the requirements of legal statute, the corporation's articles of association and applicable rules of procedure.

One of the major changes with respect to management of the company involved the replacement of the personally liable partner in 2008. Coinciding with the retirement of Prof. Dr. Ulrich Lehner, Henkel Management AG was appointed the sole personally liable partner of the corporation as of the end of the Annual General Meeting on April 14, 2008. With the exception of Prof. Dr. Ulrich Lehner, all the members of the previous Management Board of Henkel KGaA were appointed members of the Management Board of Henkel Management AG.

We carefully and regularly monitored the work of the Management Board both prior and subsequent to this change, advising on matters affecting the stewardship of the corporation. The basis for this was provided by the detailed reports submitted in writing and in verbal form by the Management Board. These related to matters of material significance affecting the company, and in particular the business situation and the development of the Group, business policy, profitability and short-term and long-term corporate, financial and personnel planning as well as capital expenditures and restructurings. In the course of the quarterly reports, moreover, 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 Chairman of the Supervisory Board also remained in regular contact with the Chairman of the Management Board for the purpose of regularly conferring on current developments and major business events.

Major Issues Discussed in Supervisory Board Meetings

In fiscal 2008, the Supervisory Board met five times. Aside from the reconstitution of the Supervisory Board required as a result of the scheduled re-election of its

members, we also discussed in detail at these meetings the reports of the Management Board, and consulted together with the Management Board on the development of the corporation and on strategic issues.

One of the main aspects under consideration was the acquisition of the Adhesives and Electronic Materials businesses from National Starch. In addition to questions of finance, we also discussed in detail together with the Management Board the performance of the businesses and the measures required and implemented in order to facilitate their integration. The sale of our investment in Ecolab Inc. was likewise the subject of extensive deliberations.

A further major item under discussion was the "Global Excellence" efficiency enhancement program. We closely followed progress as this program was implemented, conferring on the major projects as they came up for decision.

We deliberated on the future targets and strategic priorities of Henkel, specifically our objectives of achieving our full business potential, focusing even more on our customers and strengthening our global employee teams.

We further conferred on the development of the global procurement markets and the associated effects on Henkel, as well as the planning and budgetary issues relating to the individual business sectors and the financial planning of the corporation as a whole.

Committee Activities

In order to efficiently comply with the duties incumbent upon us according to legal statute and our Articles of Association, we established an Audit Committee in 2008 in addition to the Nominations Committee that was formed in 2007.

The Audit Committee is made up of three shareholder-representative members and three employee representative members. It is the task of the Audit Committee to prepare the proceedings and resolutions of the Supervisory Board relating to the adoption of the annual financial statements and the consolidated financial statements,

and also the auditor appointment proposal to be put forward to the Annual General Meeting. It is also required to discuss and report back on issues of accounting, risk management and compliance. In addition, the Audit Committee will also discuss the quarterly and half-year financial reports with the Management Board prior to their publication.

In December 2008, the Audit Committee convened its first meeting to discuss the current draft of the Accounting Law Reform Act and its possible effects on the financial reporting activities of the corporation, our compliance organization, headed since the end of 2007 by a Chief Compliance Officer with global responsibility, and the organization of the Internal Audit function.

At its meeting on February 16, 2009, attended by the external auditor, the Audit Committee discussed the annual financial statements and consolidated financial statements for fiscal 2008, and the risk report, thereupon preparing the corresponding Supervisory Board resolutions. It also made recommendations to the Supervisory Board regarding appointment of the external auditor for the subsequent financial year.

In view of the upcoming supplementary elections to the Supervisory Board due to take place at the 2009 Annual General Meeting, the Nominations Committee proposed suitable candidates for said election.

Corporate Governance

In 2008, the Supervisory Board consulted on the issue of corporate governance, and in particular the latest edition of the German Corporate Governance Code. We also discussed and approved our joint Declaration of Compliance of the Management Board, the Shareholders' Committee and the Supervisory Board with respect to the German Corporate Governance Code for 2009. The full wording of the current and also the previous declarations of compliance can be found on the company website.

Annual and Consolidated Financial Statements and Audit Result

The annual financial statements of Henkel AG & Co. KGaA and the management report have been prepared in ac-

cordance with the provisions of German commercial law (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) of the German Commercial Code (HGB).

The auditors appointed for 2008 by the last Annual General Meeting – KPMG AG Wirtschaftsprüfungsgesellschaft (KPMG), Berlin (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungs-gesellschaft, Berlin), have examined the 2008 annual financial statements of Henkel AG & Co. KGaA and the 2008 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 have 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 and results of operations of the Group and of its cash flows 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) of the German Commercial Code (HGB).

The annual financial statements and management report, consolidated financial statements and Group management report and 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 docu-

ments and discussed them at our meeting of February 17, 2009 attended by the auditors who reported on their main audit findings. We received the audit reports and voiced our acquiescence therewith. Having received the final results of the examination conducted by the Audit Committee and concluded our own examination, we see no reason for reservation or objection. At our meeting of February 17, 2009, 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 in the Audit Committee but also during our plenary sessions. We therefore received detailed reports on the risk management system in place at Henkel, with quantification of major individual risks. Our considered opinion is that there is no apparent evidence of any risks that could endanger the continued existence of the company as a going concern. In the course of the year-end audit, KPMG likewise investigated the structure and function of the risk management system and found no cause for reservation. In our view too, the risk management system corresponds to the statutory requirements.

Changes in the Supervisory Board and Management Board

Following the scheduled re-election of members of the Supervisory Board, which took place at the Annual General Meeting of 2008, representatives on the shareholders'

side and also representatives on the employees' side were newly elected for a term of four years. This resulted in three new members on the shareholders' side and four new members on the employees' side being appointed to the Supervisory Board; the remaining members were re-elected. In the course of the constituting meeting, Dipl.-Ing. Albrecht Woeste was elected Chairman and Mr. Winfried Zander was elected Vice-Chairman of the Supervisory Board.

There were also changes in the Management Board in 2008 with the departure of Prof. Dr. Ulrich Lehner effective April 14, 2008, and Mr. Alois Linder effective June 18, 2008. Mr. Thomas Geitner joined the Management Board effective March 1, 2008.

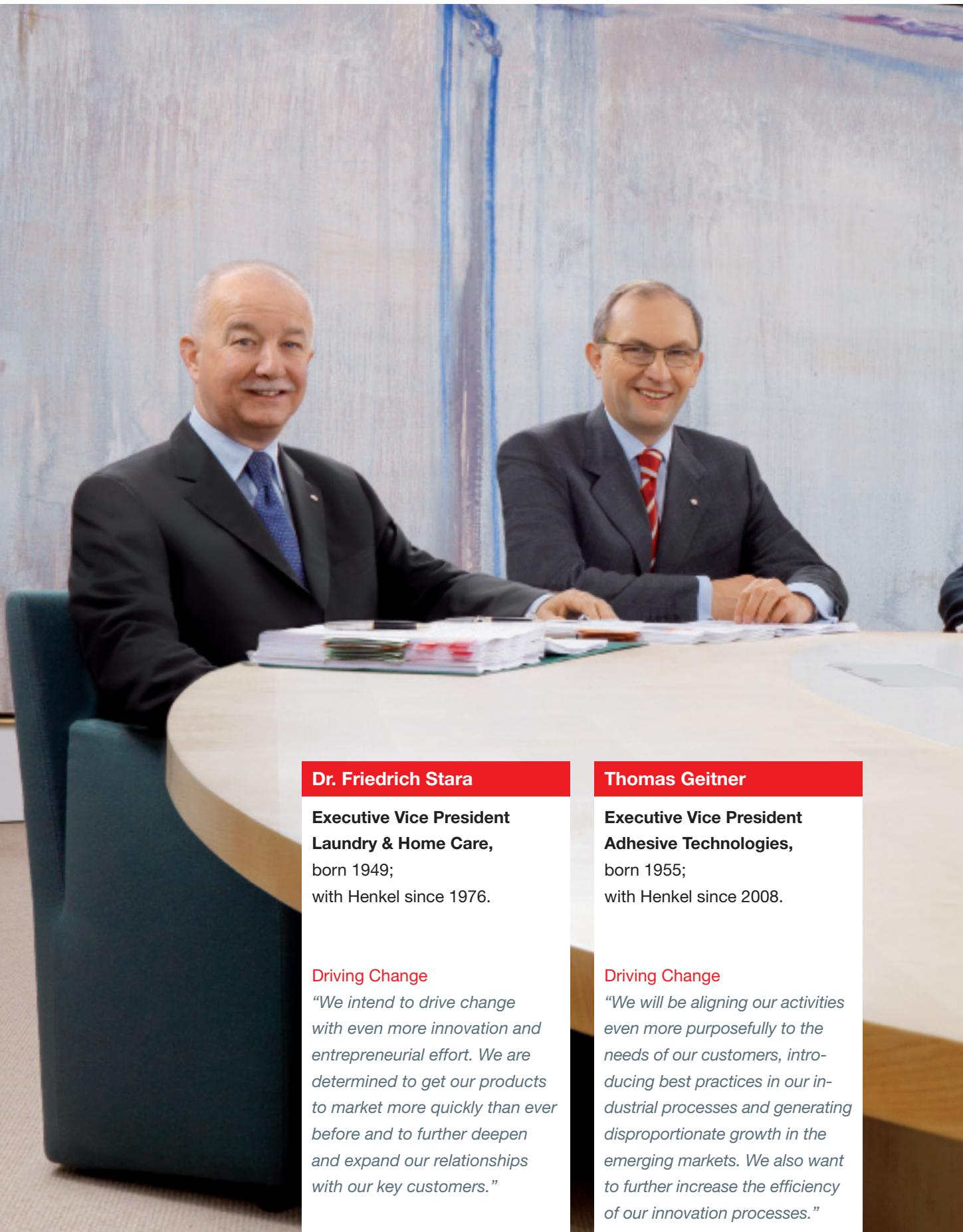
We thanked the members departing from the Supervisory Board and Management Board for their – in some cases – many years of successful engagement in the interests of the company. We wish to express our particular gratitude to Mr. Alois Linder for his 29 years of committed endeavor, and Professor Ulrich Lehner who, after 24 highly successful years of work on behalf of the company, and having reached the Henkel-internal retirement age, handed over the office of Chairman of the Management Board to Kasper Rorsted. In keeping with our traditions, he is now providing us with the benefit of his extensive, specialized expertise with respect to Henkel through his work as a member of the Shareholders' Committee. We also take this opportunity to thank the Management Board and all Henkel employees for their hard work and commitment in 2008.

Düsseldorf, February 17, 2009



The Supervisory Board
Dipl.-Ing. Albrecht Woeste
(Chairman)

Management Board



Dr. Friedrich Stara

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

Driving Change

"We intend to drive change with even more innovation and entrepreneurial effort. We are determined to get our products to market more quickly than ever before and to further deepen and expand our relationships with our key customers."

Thomas Geitner

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

Driving Change

"We will be aligning our activities even more purposefully to the needs of our customers, introducing best practices in our industrial processes and generating disproportionate growth in the emerging markets. We also want to further increase the efficiency of our innovation processes."

**Kasper Rorsted**

Chairman of the Management Board,
born 1962; with Henkel since 2005,
Chairman of the Management Board since April 14, 2008.

Driving Change

"It is important that we chart a clear course for the longer term. To this end, we have defined our strategic priorities. And we have set ourselves an ambitious set of financial and sustainability targets for 2012."

Dr. Lothar Steinebach

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

Driving Change

"We intend to do everything in our power to keep Henkel competitive and attractive for investors. And that means improving our structures and processes as laid out in our 'Operational Excellence' program."

Hans Van Bylen

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

Driving Change

"The key lies in successful innovations based on a clearly structured innovation process and a strong innovation culture. Direct customer contact is likewise indispensable as a source of inspiration for new product development."

Driving Change

We have the right strategies. And our more than 55,000 employees are already implementing them with determined perseverance. And we are winning in our markets. In our quest to achieve our goals, we will be concentrating on three strategic priorities:

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

Our ultimate purpose: To further improve our competitiveness and to permanently establish a winning culture.

**Focus more on
our customers**



Achieve our
full business
potential

Winning
Culture

Strengthen our
global team

Shares and Bonds

- » Share price weakens in line with market trends
- » International, widely diversified shareholder structure
- » Capital market communications further augmented

The performance of Henkel shares in 2008 was significantly affected by the global downturn on the stock markets. Due to the international financial crisis triggered by the US credit crunch and with the first signs of recession ahead, the DAX fell by 40.4 percent compared to the closing price at the end of 2007. The industry benchmark, the Dow Jones Euro Stoxx Consumer Goods index, declined by 40.6 percent. Within this weak market environment, the price of the Henkel preferred share likewise decreased, closing the year at 22.59 euros, 41.2 percent below the level of the previous year. The ordinary share ended the year at 18.75 euros, 46.4 percent below its prior-year closing price.

In the first few months of 2008, the preferred share initially declined further, tracking the general market downturn. Our share price then underwent a marked increase in response to the positive business performance reported for the first quarter. This was followed by a phase of price stability that lasted until the beginning of June. The Henkel share then again fell in value as the year proceeded, eventually tracking the performance of the overall market. It registered its year low of 19.30 euros in October, recovering in the ensuing period by 17 percent.

Trading volumes remained roughly at the level of the preceding year with an average of 1.7 million preferred shares changing hands per trading day. In the case of our ordinary shares, the average per trading day increased to 330,000 shares (previous year: 288,200). Due to the fall in price levels, the market capitalization of our ordinary and preferred shares combined decreased from 15.9 billion euros to 8.9 billion euros.

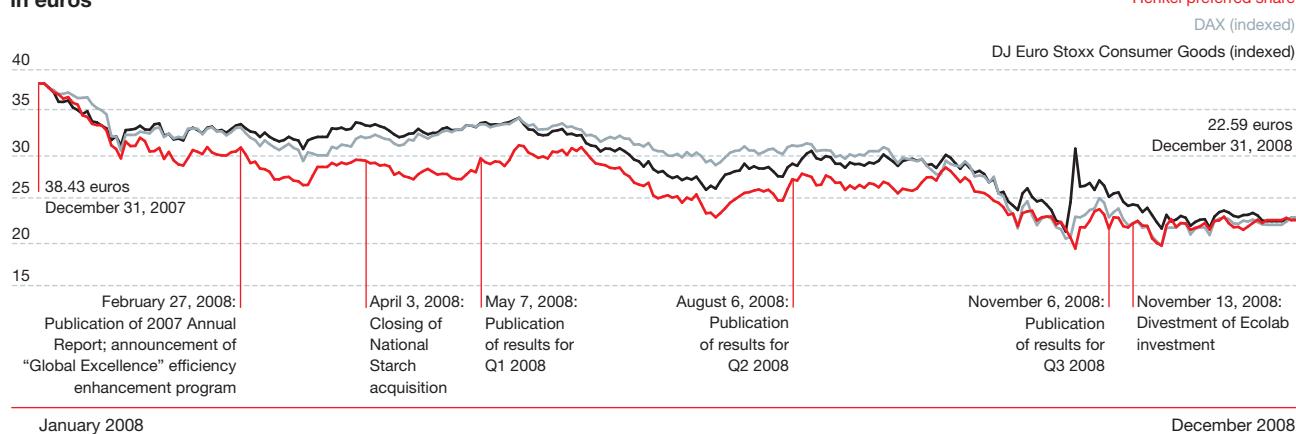
Henkel shares remain an attractive investment for long-term investors. Shareholders who invested 1,000 euros when Henkel's preferred shares were issued in 1985, and then re-invested the dividends received (excluding taxes) in the stock, would have had a portfolio value of about 6,700 euros by the end of 2008. This represents investment growth of 570 percent or an average yield of 8.5 percent per year. Over the same period, DAX tracking would have provided an annual yield of 6.4 percent.

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 the other regional stock exchanges in Germany. In the USA, investors are able to acquire Henkel preferred and ordinary shares by way of stock ownership certificates obtained through the Sponsored Level I ADR (American Depository Receipt) Program. The number of ADRs representing ordinary and preferred shares outstanding at the end of the year was about 6.3 million (end of 2007: 9 million).

Henkel Preferred Share Performance Versus Market in 2008

in euros



Key Data on Henkel Shares 2004–2008

in euros ¹⁾	2004	2005	2006	2007	2008
Earnings per share in accordance with IFRS²⁾					
Ordinary share	1.73	1.75	1.97	2.12	2.81
Preferred share	1.75	1.77	1.99	2.14	2.83
Share price at year-end³⁾					
Ordinary share	20.30	26.18	32.73	34.95	18.75
Preferred share	21.33	28.33	37.16	38.43	22.59
High for the year³⁾					
Ordinary share	22.67	26.18	33.14	37.50	34.95
Preferred share	24.53	28.37	37.82	41.60	38.43
Low for the year³⁾					
Ordinary share	17.50	20.32	25.66	29.96	16.68
Preferred share	18.67	21.46	28.21	33.70	19.30
Dividends					
Ordinary share	0.41	0.43	0.48	0.51	0.51 ⁴⁾
Preferred share	0.43	0.45	0.50	0.53	0.53 ⁴⁾
Market capitalization³⁾		in bn euros	9.1	11.8	15.1
Ordinary share		in bn euros	5.3	6.8	8.5
Preferred share		in bn euros	3.8	5.0	6.6

¹⁾ Comparable based on share split (1:3) of June 18, 2007²⁾ Comparable; 2004 restated and comparable³⁾ Closing share prices, Xetra trading system⁴⁾ Proposed

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

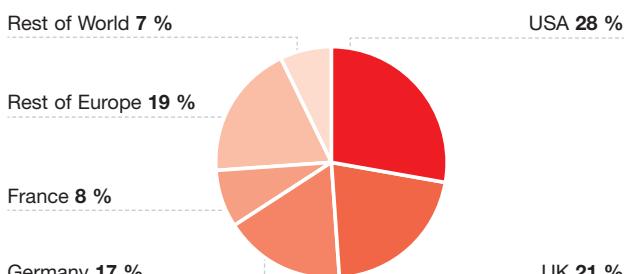
The international significance of Henkel preferred shares derives not least from their inclusion in major indexes that serve as important indicators for the capital markets and as benchmarks for fund managers. Particularly worthy of note in this respect are the MSCI World, the Dow Jones Euro Stoxx, and the FTSE World Europe index. 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 segments worldwide. As of year-end 2008, the market capitalization of the DAX-relevant preferred shares was 4.0 billion euros, placing Henkel 24th among the DAX companies (2007: 25th). In terms of trading volumes, Henkel was ranked 29th on the list (2007: 28th). Our DAX weighting is 0.91 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 52.18 percent. Dr. h.c. Christoph Henkel, London, holds 5.83 percent of the ordinary shares. On June 26, 2008, Silchester International Investors Limited headquartered in London, UK, informed us that, as of that date, it held 3.01 percent of the 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 – is widely diversified. A majority of these shares are owned by institutional investors with globally distributed shareholdings.

Institutional Investors

Henkel Preferred Shares by Region



Source: Thomson Reuters

Around 7.5 million preferred shares have been repurchased in the past by Henkel for the corporation's Stock Incentive Plan operated as an incentive for our senior executive personnel. As of December 31, 2008, our treasury stock amounted to 4.8 million preferred shares.

Employee Shares in High Demand

Since 2001, Henkel has been operating a share ownership plan for all employees worldwide, known as the Employee Share Program or ESP. For each euro invested by an employee (limited to 4 percent of salary up to a maximum of 5,000 euros per year), Henkel added an additional 33 cents in the year under review. The number of participants in this plan increased once again in 2008, with some 12,000 employees in 54 countries buying Henkel shares. At year-end, around 15,000 employees held a total of 3.7 million shares within the ESP, representing roughly 2.1 percent of total preferred shares outstanding. The vesting period for newly acquired shares is three years.

Henkel Bonds

Henkel is represented in the international bond markets by two bonds with a total volume of 2.3 billion euros.

Bond Data

	Senior Bond	Hybrid Bond
Volume	1.0 bn euros	1.3 bn euros
Nominal Coupon	4.25 %	5.375 %
Coupon Payment Date	June 10	November 25
Maturity	June 10, 2013	Nov. 25, 2104 ¹⁾
Listing	Frankfurt	Luxembourg
Security Code No.	664196	A0JBUR
ISIN Code	DE0006641962	XS0234434222

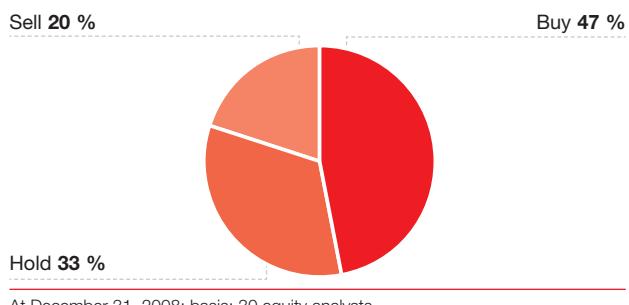
¹⁾ First call option for Henkel on November 25, 2015

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 experts, primarily in the UK, Germany and the USA. Over 40 equity and debt analysts regularly publish studies and commentaries on the current performance of the company.

Analyst Recommendations



Henkel places great importance on meaningful dialog with both investors and analysts. In more than 30 capital market conferences and roadshows held in Europe and North America, institutional investors and financial analysts were afforded the opportunity to talk directly with our top management. The highlight of the year was our Analyst and Investor Conference held in London on November 6, 2008. New Chairman of the Management Board Kasper Rorsted took this opportunity to present the main elements of our strategy for the coming years and also our financial targets for 2012. In addition, there were numerous telephone conferences and one-to-one meetings – amounting to more than 500 events in all.

Private investors are able to receive all relevant information through telephone inquiry 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 the possibility of obtaining extensive information from Henkel's management. In June, moreover, we reported on the latest news and developments at Henkel to a large group of private investors attending the Düsseldorf Shareholder Forum.

The quality of our capital market communications was again evaluated in 2008 by various independent ranking organizations. And once more, our Investor Relations team garnered a number of major awards 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.

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Annual Report



Sustainability Report



Internet

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 interests of shareholders, 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:

- » **Shareholder value creation** as the foundation of our managerial approach
- » **Sustainability** as a criterion for socially responsible management
- » **Transparency** underpinned by an active and open information policy

I. Corporate Governance/ Corporate Management Report

This report describes the principles of the management and control structure, corporate stewardship and 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 (corporate bylaws) 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 and explanations required according to Clause 289 (4) 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 (general or 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 three 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). All the 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 of a KGaA is not entitled to appoint personally liable partners or to preside over the associated contractual arrangements; it may not issue rules of procedure governing the actions of the management board, and it is not permitted to rule on business transactions requiring shareholder or partner consent. 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 and formally approves the actions of the personally liable partner. At Henkel, the Annual General Meeting also elects the Shareholders' Committee and formally approves its actions. Resolutions passed in general meeting require the approval of the personally liable partner where they involve matters which, in the case of a partnership, are subject to the authorization of both the general and 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 (Article 27 of the Articles of Association). Acting on behalf of the general meeting, its primary duties are to engage in the management of the corporation's affairs and to appoint and dismiss personally liable partners; it holds representative authority and power of management allowing it to preside over the legal relationships between the corporation and Henkel

Management AG as the latter's personally liable partner, and it exercises the voting rights of the corporation in the General Meeting of Henkel Management AG (Clause 278 (2) AktG in conjunction with Clause 114 and Clause 161 HGB and Art. 8, 9 and 26 of the Articles of Association).

Division of the Capital Stock, Shareholder Rights

The par value of 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 (share certificates), 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 bearer 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).

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 Annual 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).

Approved 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 preemptive 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, or 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 13, 2009, 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 participating interests 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 19, 2008, a total of 52.18 percent of the voting rights are held by parties to the Henkel family's share-

pooling agreement. This agreement was concluded between members of the families of the descendants of company founder Fritz Henkel; it contains restrictions with respect to transfers of the ordinary shares covered (Art. 7 of the Articles of Association).

Interaction between Management Board, Shareholders' Committee and Supervisory Board

The Management Board of Henkel Management AG, 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 risk and its management.

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

The Shareholders' Committee 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 the year-end audit, taxation and accounting policy, and the internal audit and risk management of the corporation, preparing the ground for decisions taken in the plenary sessions of the Shareholders' Com-

mittee. The Human Resources Subcommittee principally discusses personnel matters relating to the members of the Management Board, human resources strategy, and remuneration.

The Supervisory Board has established an Audit Committee and a Nominations Committee. The Audit Committee is made up of three elected shareholder and three elected employee representative members of the Supervisory Board, each chosen by their fellow shareholder or employee representative Supervisory Board members. The chairperson of the Audit Committee is elected from candidates proposed by the shareholder representative members of the Supervisory Board. 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. Acting on behalf of the Supervisory Board, the Audit Committee also deals with accounting, risk management and compliance issues.

The Nominations Committee comprises the chairperson of the Supervisory Board and two further members elected by the other 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).

Some members of the Supervisory Board and of the Shareholders' Committee are or were in past years holders of leading 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. This, in our view, ensures the independence and impartiality of the members concerned.

For more details on the composition of the Management Board, the Supervisory Board and the Shareholders' Committee and also the committees established within the Supervisory Board and the subcommittees of the Shareholders' Committee, please refer to  pages 132 to 136.

For further details with respect to corporate governance in general, please go to our website: 

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 remains in compliance with the guiding principles of sustainable development. We have created a uniform value system to which our more than 55,000 employees of all cultures subscribe.

Henkel's vision is to be a leader with brands and technologies that make people's lives easier, better and more beautiful. We want our products and technologies to make a valuable contribution to society and to promote and support sustainable development in all the countries in which we are active. The ten corporate values derived from this vision provide the guidelines governing the conduct and actions of Henkel employees in all areas of business and in all cultures in which Henkel is found. They are an expression of our corporate culture.

From this vision and these common values are derived rules of behavior which we have formulated in a series of codes. Our Code of Conduct supports our employees in dealing with ethical and legal issues. Our Code of Teamwork and Leadership defines the actions and attitudes to be adopted by management and employees in their interpersonal dealings. And the Code of Corporate Sustainability describes the principles and expectations that underlie our approach to sustainable, socially responsible development. These various sets of principles are further expanded in Group-wide standards. Together, these codes also form the basis for Henkel's contribution to achieving the goals specified in the United Nations Global Compact.

Henkel is committed to ensuring that all business transactions are conducted in an ethically and legally irreproachable manner. In order to maintain compliance in this regard, the Management Board has introduced a range of binding rules and regulations in the form of various codes and derivative standards and directives. Reviewed and revised as and when appropriate, these rules also cover the procedures to be adopted in the event of infringements or suspicion of malpractice. In addition to our internal reporting system and complaint registration channels, employees may also, for the purpose of reporting serious violations, use a Compliance Line operated by an external service-provider.

Given the increasing requirements and growing complexities characterizing this sphere, Henkel has appointed a Chief Compliance Officer (CCO). The CCO is responsible for compliance-related activities undertaken at the corporate level, oversees fulfillment of both internal and external regulations, reports on findings in this respect and supports the corporation in the further development and implementation of the associated standards. He or she is assisted in this capacity by the Internal Audit unit, and also by a Compliance Committee of interdisciplinary composition.

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 derive from capital market law. In addition to the legal provisions, internal codes of conduct have been put in place to regulate the treatment of information that could potentially affect share prices. There are also rules that go beyond the legal requirements, governing the behavior of the members of the Management Board, 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 information 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 main recommendations ("shall" provisions) of the German Corporate Governance Code, with three 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 corporate bodies who are also members of the Henkel family, their individual shareholdings are not disclosed unless required by law. The Code requires disclosure of shareholdings in

excess of 1 percent. (3) The members of the committees of the Supervisory Board receive no additional remuneration. However, a proposal for compensating the members of the Audit Committee is to be put before the 2009 Annual General Meeting for its approval; the members of the Nominations Committee will continue to perform their duties without any special remuneration.

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 can be found on our website:

 www.henkel.com/ir

In accordance with the Declaration of Compliance, the following details are 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 2008, members of the Management Board, Supervisory Board and Shareholders’ Committee or persons closely related to them notified 11 transactions per Clause 15a WpHG (Securities Trading Act, “Directors’ Dealings”). Members of the Management Board under both the old and the new legal form purchased a total of 12,458 preferred shares. Members of the Supervisory Board and of the Shareholders’ Committee sold a total of 881 preferred shares and purchased 30,054 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.

It takes into account the recommendations of the German Corporate Governance Code and contains all

the information required according to the provisions of the German Commercial Code (HGB) as amended by the Disclosure of Management Remuneration Act; this information has therefore not been repeated in the Notes to the Consolidated Financial Statements.

1. Remuneration of the Management Board

Regulation

Regulation and confirmation of compensation for members of the Management Board of Henkel Management AG is the responsibility of the Supervisory Board of Henkel Management AG, which is comprised of three members of the Shareholders’ Committee. Its deliberations also take into account the result of discussions held within the Human Resources Subcommittee of the Shareholders’ Committee. The compensation system is regularly reviewed in terms of the structure and the amounts involved. In order to ensure the competitiveness of the compensation package, this process takes into account the size and international activities of the corporation, our economic position and the level and structure of remuneration encountered in similar companies.

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 amount of fixed salary is determined on the basis of the functions and responsibilities of the recipients concerned, their time of tenure as members of the Management Board (taking into account any membership on the former Management Board of Henkel KGaA), and prevailing market conditions. It is paid on a monthly basis.

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/management sector(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 – per financial year (= tranche). On expiry of the performance period, the number and the value of the Cash Performance Units 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 Cash Performance Units (CPUs) respectively. To calculate the share price increase, the average price in January of the tranche issue year is compared to the average price in January of the third financial year following the issue year (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 (EPS), the EPS of the financial year prior to the year of issue is compared to that of the second financial year following the year of issue. 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 also being first adjusted for exceptional items. The monetary value per Cash Performance Unit 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 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 corporate 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. An appropriate own-risk deductible has been set with respect to the members of the Management Board.

Remuneration for 2008

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. With the exception of Prof. Dr. Ulrich Lehner, who retired effective April 14, 2008, all the members of the former Management Board of Henkel KGaA were appointed members of the Management Board of Henkel Management AG. The remuneration of the Management Board indicated below includes payments made or accruing to members of the Management Board of Henkel KGaA in the period from January 1, 2008 to the end of the AGM 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 13,270k euros (2007: 16,040k euros). Of the total cash emoluments of

11,743k euros (2007: 14,310k euros) paid in respect of 2008, 3,763k euros was in fixed salary (2007: 4,128k euros), 7,808k euros for the STI (2007: 9,969k euros) and 172k euros in other emoluments (2007: 213k euros). Also included in the total remuneration are the Cash Performance Units granted to the members of the Management Board for 2008 as LTI, which become payable in 2011 depending on 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 1,527k euros (2007: 1,730k euros).

The emoluments received by the individual members of the Management Board for the year under review are indicated in the table below together with a breakdown according to the individual components referred to in the 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 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

Remuneration of the Management Board

in k euros	Cash components					Value of long-term incentive ¹⁾	Total remuneration ¹⁾
	Fixed salary	Short-term incentive	Other emoluments	Total cash emoluments			
Kasper Rorsted	2008	856.5	1,820.6	53.8	2,730.9	293.8	3,024.7
	2007	576.0	1,407.5	68.6	2,052.1	340.1	2,392.2
Prof. Dr. Ulrich Lehner ²⁾ (until April 14, 2008)	2008	262.5	706.2	14.1	982.8	28.6	1,011.4
	2007	900.0	2,286.3	38.3	3,224.6	146.4	3,371.0
Thomas Geitner (since March 1, 2008)	2008	501.0	975.6	24.1	1,500.7	277.4	1,778.1
	2007	–	–	–	–	–	–
Dr. Jochen Krautter (until June 30, 2007)	2008	–	–	–	–	–	–
	2007	300.0	705.0	13.5	1,018.5	56.7	1,075.2
Alois Linder ²⁾ (until June 18, 2008)	2008	280.0	794.5	11.1	1,085.6	45.7	1,131.3
	2007	600.0	1,427.5	20.7	2,048.2	166.3	2,214.5
Dr. Friedrich Stara	2008	621.0	1,133.8	30.2	1,785.0	293.8	2,078.8
	2007	576.0	1,377.5	34.9	1,988.4	340.1	2,328.5
Dr. Lothar Steinebach	2008	621.0	1,203.8	22.7	1,847.5	293.8	2,141.3
	2007	600.0	1,387.5	20.4	2,007.9	340.1	2,348.0
Hans Van Bylen	2008	621.0	1,173.8	15.8	1,810.6	293.8	2,104.4
	2007	576.0	1,377.5	16.9	1,970.4	340.1	2,310.5
Total	2008 ²⁾	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 %
Total	2007 ²⁾	4,128.0	9,968.8	213.3	14,310.1	1,729.8	16,039.9
		25.7 %	62.2 %	1.3 %		10.8 %	100.0 %

¹⁾ 2008 LTI payout in 2011; these figures will only be attained in the event of EPS/share price increasing by 21 percent in the performance period

²⁾ 2007/2008 LTI calculated for Messrs. Lehner/Linder only up to time of departure in 2008

Defined Benefit

in euros	Retirement pension p.a. on onset of pension as of balance sheet date	Change in pension provisions for 2008
Prof. Dr. Ulrich Lehner (until April 14, 2008)	540,000.00	-644,422.00
Alois Linder (until June 18, 2008)	385,200.00	443,948.00
Dr. Lothar Steinebach	369,150.00	285,838.00

Defined Contribution

in euros	Superannuation lump sum		Basic annuity	
	Total lump sum	Addition to superannuation lump sum 2008	Total basic annuity (p.a.)	Addition to basic annuity for 2008
Kasper Rorsted	996,300.00	396,540.00	1,030.87	255.60
Thomas Geitner (since March 1, 2008)	81,030.00	81,030.00	178.99	178.99
Dr. Friedrich Stara	869,850.00	348,750.00	497.49	133.34
Hans Van Bylen	859,994.10	348,750.00	908.85	242.78

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 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 Boards as of the balance sheet date, and also the contributions to the pension scheme made in 2008 are shown in the tables above.

A total of 58,613k euros (2007: 61,878k euros) has been provided for pension obligations to former members of the former and latter Management Boards and the former directors of the legal predecessor of Henkel KGaA, and their surviving dependants. Amounts paid to such recipients during the year under review totaled 12,200k euros (2007: 6,097k euros).

2. Remuneration of Henkel Management AG for Assumption of Liability and Reimbursement of Expenses

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 or of the Shareholders' Committee receives a fixed fee of 20,000 euros or 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 year under review 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 registered over a three-year reference period. The 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 for the respective financial years as duly audited and provided with an unqualified opinion, with EPS also being adjusted for exceptional items.

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

Remuneration for Chairpersons/

Vice-chairpersons/Subcommittee 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.

Other Regulatory Provisions

The members of the Supervisory Board receive an attendance fee amounting to 500 euros for each meeting in which they participate. In addition, the members of the Supervisory Board and of the Shareholders' Committee are reimbursed expenses arising from the pursuit of their mandates. The members of the Supervisory Board are also reimbursed the value-added tax (VAT) payable on their total remunerations and reimbursed expenses.

The corporation maintains on behalf of members of corporate 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. An appropriate own-risk deductible has been set with respect to the members of both corporate bodies.

Remuneration for 2008

Total remuneration paid to the members of the Supervisory Board (fixed fee, dividend bonus, LTI for 2008 and attendance fee) for the year under review amounted to 1,231k euros plus VAT (2007: 1,226k euros plus VAT). Of

the total cash emoluments paid for 2008 (fixed fees, dividend bonus and attendance fees) amounting to 974k euros plus VAT of 144k euros (2007: 969k euros plus VAT of 174k euros), 349k euros was for fixed fees, 587k euros was in dividend bonus and 38k euros was for attendance fees.

The total remuneration of the members of the Shareholders' Committee for the year under review (fixed fee, dividend bonus and LTI for 2008, including the components payable for subcommittee activity) amounted to 2,303k euros (2007: 2,260k euros). Of the total cash emoluments paid for 2008 (fixed fee and dividend bonus, including the components payable for subcommittee activity) amounting to 1,959k euros (2007: 1,922k euros), 1,172k euros was for fixed fees and 787k euros was in dividend bonus.

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

Also included in the total remuneration figures is the long-term incentive (LTI) for 2008 granted to the members of the Supervisory Board and of the Shareholders' Committee in the form of a deferred conditional payment entitlement which will be paid out following the 2011 Annual General Meeting as a function of the earnings per preferred share (EPS) achieved in fiscal 2010. 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 50k euros per ordinary member. Given this specified upper maximum, and assuming an increase in EPS of 21 percent in the performance period, the totals applicable for 2008 are 257k euros for the Supervisory Board and 344k euros for the Shareholders' Committee (including remuneration components for subcommittee activity).

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

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 entirely 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 ¹⁾	Total remuneration¹⁾
		Fixed fee	Dividend bonus	Attendance fee			
Dipl.-Ing. Albrecht Woeste, Chair	2008	40,000	67,200	2,500	109,700	29,400	139,100
	2007	40,000	67,200	2,000	109,200	29,400	138,600
Winfried Zander, Vice-chair	2008	30,000	50,400	2,500	82,900	22,050	104,950
	2007	30,000	50,400	2,000	82,400	22,050	104,450
Dr. Friderike Bagel	2008	20,000	33,600	2,500	56,100	14,700	70,800
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Dr. Simone Bagel-Trah (since April 14, 2008)	2008	14,317	24,052	2,000	40,369	10,523	50,892
	2007	—	—	—	—	—	—
Engelbert Bäßler (until April 14, 2008)	2008	5,683	9,548	500	15,731	4,177	19,908
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Jutta Bernicke (since April 14, 2008)	2008	14,317	24,052	1,500	39,869	10,523	50,392
	2007	—	—	—	—	—	—
Hans Dietrichs (until March 31, 2008)	2008	4,973	8,354	500	13,827	3,655	17,482
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Fritz Franke (since April 14, 2008)	2008	14,317	24,052	2,000	40,369	10,523	50,892
	2007	—	—	—	—	—	—
Birgit Helten-Kindlein (since April 14, 2008)	2008	14,317	24,052	2,000	40,369	10,523	50,892
	2007	—	—	—	—	—	—
Bernd Hinz	2008	20,000	33,600	2,500	56,100	14,700	70,800
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Dr. Michael Kaschke (since April 14, 2008)	2008	14,317	24,052	1,500	39,869	10,523	50,392
	2007	—	—	—	—	—	—
Thomas Manchot	2008	20,000	33,600	2,500	56,100	14,700	70,800
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Prof. Dr. Dr. h.c. mult. Heribert Meffert (until April 14, 2008)	2008	5,683	9,548	500	15,731	4,177	19,908
	2007	20,000	33,600	1,500	55,100	14,700	69,800
Thierry Paternot (since April 14, 2008)	2008	14,317	24,052	2,000	40,369	10,523	50,892
	2007	—	—	—	—	—	—
Andrea Pichottka	2008	20,000	33,600	2,500	56,100	14,700	70,800
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber (until April 14, 2008)	2008	5,683	9,548	500	15,731	4,177	19,908
	2007	20,000	33,600	1,500	55,100	14,700	69,800
Konstantin von Unger	2008	20,000	33,600	2,000	55,600	14,700	70,300
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Michael Vassiliadis	2008	20,000	33,600	2,000	55,600	14,700	70,300
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Bernhard Walter	2008	20,000	33,600	2,500	56,100	14,700	70,800
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Werner Wenning (until April 14, 2008)	2008	5,683	9,548	500	15,731	4,177	19,908
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Ulf Wentzien (since April 14, 2008)	2008	14,317	24,052	2,000	40,369	10,523	50,892
	2007	—	—	—	—	—	—
Dr. Anneliese Wilsch-Irrgang (until April 14, 2008)	2008	5,683	9,548	500	15,731	4,177	19,908
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Rolf Zimmermann (until April 14, 2008)	2008	5,683	9,548	500	15,731	4,177	19,908
	2007	20,000	33,600	2,000	55,600	14,700	70,300
Total	2008	349,290	586,806	38,000	974,096	256,728	1,230,824
	2007	350,000	588,000	31,000	969,000	257,250	1,226,250

¹⁾ 2008 LTI payout in 2011; these figures will only be attained in the event of EPS/share price increasing by 21 percent in the performance period; figures do not include VAT

Remuneration of the Shareholders' Committee

in euros

	Cash components						Value of long-term incentive ²⁾	Total remuneration ³⁾		
	Fixed fee	Dividend bonus	Fee for sub-committee activity ¹⁾	Total cash emoluments						
				2008	2007					
Dipl.-Ing. Albrecht Woeste, Chair (Member HR Subcom., Chair HR Subcom. until April 14, 2008)	2008	100,000	67,200	107,355	274,555	48,277	322,832			
	2007	100,000	67,200	167,200	334,400	58,800	393,200			
Dr. Simone Bagel-Trah, Vice-chair, Member until April 14, 2008, (Chair HR Subcom., Member HR Subcom. until April 14, 2008)	2008	67,896	45,626	143,445	256,967	45,184	302,151			
	2007	50,000	33,600	83,600	167,200	29,400	196,600			
Stefan Hamelmann, Member, Vice-chair until April 14, 2008 (Vice-chair Finance Subcom.)	2008	57,104	38,374	83,600	179,078	31,489	210,567			
	2007	75,000	50,400	83,600	209,000	36,750	245,750			
Dr. h.c. Christoph Henkel, Vice-chair (Chair Finance Subcom.)	2008	75,000	50,400	167,200	292,600	51,450	344,050			
	2007	75,000	50,400	167,200	292,600	51,450	344,050			
Dr. Paul Achleitner (Member Finance Subcom.)	2008	50,000	33,600	83,600	167,200	29,400	196,600			
	2007	50,000	33,600	83,600	167,200	29,400	196,600			
Dr. h.c. Ulrich Hartmann (Member Finance Subcom.)	2008	50,000	33,600	83,600	167,200	29,400	196,600			
	2007	50,000	33,600	83,600	167,200	29,400	196,600			
Burkhard Schmidt (until June 29, 2007) (Member Finance Subcom.)	2008	-	-	-	-	-	-			
	2007	24,658	16,570	41,228	82,456	14,499	96,955			
Prof. Dr. Ulrich Lehner (since April 14, 2008) (Member Finance Subcom.)	2008	35,792	24,052	59,845	119,689	21,046	140,735			
	2007	-	-	-	-	-	-			
Konstantin von Unger (Vice-chair HR Subcom.)	2008	50,000	33,600	83,600	167,200	29,400	196,600			
	2007	50,000	33,600	83,600	167,200	29,400	196,600			
Karel Vuursteen (Member HR Subcom.)	2008	50,000	33,600	83,600	167,200	29,400	196,600			
	2007	50,000	33,600	83,600	167,200	29,400	196,600			
Werner Wenning (since April 14, 2008) (Member HR Subcom.)	2008	35,792	24,052	59,845	119,689	21,046	140,735			
	2007	-	-	-	-	-	-			
Dr. Hans-Dietrich Winkhaus (until April 14, 2008) (Member Finance Subcom.)	2008	14,208	9,548	23,755	47,511	8,354	55,865			
	2007	50,000	33,600	83,600	167,200	29,400	196,600			
Total	2008	585,792	393,652	979,445	1,958,889	344,446	2,303,335			
	2007	574,658	386,170	960,828	1,921,656	337,899	2,259,555			

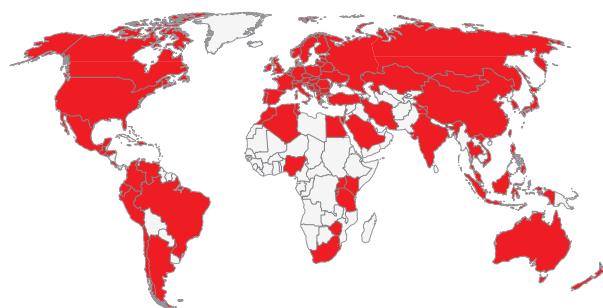
¹⁾ Proportional fixed fee and dividend bonus²⁾ Including LTI amount arising from subcommittee activity³⁾ 2008 LTI payout in 2011; these figures will only be attained in the event of EPS/share price increasing by 21 percent in the performance period

Operational Activities

Overview

Henkel was founded in 1876. Consequently, the year under review marked the 132nd in our corporate history. Today, Henkel boasts a global workforce of more than 55,000 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 distribution 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.

As of 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 previous Management Board. Now, the Management Board of Henkel Management AG is responsible for managing our operational activities, supported by the functions of our Corporate unit.

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, special 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 local 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 guidelines, standards and codes.

Corporate Governance, Remuneration

Further details of corporate governance at Henkel AG & Co. KGaA and the remuneration of the members of the Management Board, Supervisory Board and Shareholders' Committee are provided in the Corporate Governance Report starting on [AR page 18](#) and the Remuneration Report starting on [AR page 22](#).

Strategy and Financial Targets for 2012

Point of Departure

We intend to continue focusing on our three growth-generating strategic areas of competence. Within the more mature markets, we already occupy leading positions in each of these areas, and our sights are very much set on

further expansion as we move forward. In the growth markets too, our Laundry & Home Care and Cosmetics/Toiletries business sectors already boast leading positions in more than 100 different categories. Meanwhile, Adhesive Technologies is the market leader in more than 30 emerging economies. We do not feel it is necessary to have a presence absolutely everywhere – however, in those locations where we operate it is important that we enjoy strong or expandable market positions. Today, we already generate some 37 percent of our total sales in the dynamically developing countries of the growth regions. In 2004, the overall share of these emerging markets was just 26 percent.

In other words, with our three growth-generating strategic areas of competence and the leading positions that we already occupy in both the mature markets and the growth regions, today we already have a strong basis for generating profitable growth in the future.

Strategic Priorities

We have specified 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 dish-washing 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 aim 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 increase the share of sales accounted for by these markets over the next few years to 45 percent – while also improving our margins. At the same time, we also want to further increase our market shares in the mature markets.

2. Concentration on our top brands

Here, the 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 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.

3. Innovations and the innovation rate

With an innovation rate¹⁾ of more than 30 percent, we already count among the most innovative companies in our strategic areas of competence. We are helped in this respect by the proximity we have to our customers and consumers, 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 of the business sector concerned.

4. Operational excellence

In our purchasing activities, our aim is to generate economies of scale through the further development of our strategies. This includes concentrating on strategic suppliers and on procuring materials from low-wage countries. Our objectives with regard to production and supply chain management include a reduction in the number of production sites, particularly in the mature markets. This will enable us

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

to reduce the complexity of our structures and better utilize available capacities. With these measures and improvements in our administration, selling and distribution expenses (achieved, for example, through the systematic utilization of standardization opportunities, shared service centers and the outsourcing of non-core activities), we expect to be able to realize significant cost savings.

Focus more on our customers

In order to place our customers right at the center of everything that we do, we need to prioritize expanding our contacts 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 marshal our own competences in the form of, for example, our leading role 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 figure for Henkel as a whole.

Strengthen our global team

Our employees are our most important asset. With clear and unequivocal feedback, significant 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 the corporation. At the same time, we are also aware of the need to bring in external talents who best know their local markets, the requirements of our customers in those markets and the cultures of the individual countries concerned. Already today, our Düsseldorf headquarters is staffed by people from 40 different countries; and the proportion of female managers is well above 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.

Financial Targets for 2012

We have set ourselves new financial targets for 2012 and are confident that, by following the strategic priorities indicated above, we will achieve them:

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

Value-based Management and Control

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

We use economic value added (EVA®)²⁾ as a central performance management parameter 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). 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 121](#).

The cost of capital employed is calculated as a weighted average of the cost of capital (WACC) comprising both equity and debt. In fiscal 2008, we applied a WACC after tax of 7.5 percent. Before tax, the figure was 11 percent. We regularly review our cost of capital in order to reflect changing market conditions. Starting in fiscal 2009,

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

²⁾ EVA® is a registered trademark of Stern Stewart & Co.

therefore, we have adopted a WACC of 11.5 percent before tax and 8.0 percent after tax.

We further apply different WACC rates depending on the business sector involved, based on sector-specific beta factors. In the year under review, 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 12.0 percent before tax (8.5 percent after tax) for Adhesive Technologies. Since the start of 2009, we have been applying a WACC for Adhesive Technologies of 12.5 percent (8.5 percent after tax), while the values for the other two business sectors have remained unchanged.

At Henkel, EVA® is calculated as follows:

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

Weighted Average Cost of Capital (WACC)

	2008	since 2009
Risk-free interest rate	4.8 %	4.8 %
Market risk premium	4.5 %	4.5 %
Beta factor	0.90	1.00
Cost of equity after tax	8.9 %	9.4 %
Cost of debt capital before tax	5.6 %	5.3 %
Tax shield (30 %)	-1.7 %	-1.6 %
Cost of debt capital after tax	3.9 %	3.7 %
Share of equity ¹⁾ (target structure)	75 %	75 %
Share of debt capital ¹⁾ (target structure)	25 %	25 %
WACC after tax²⁾	7.5 %	8.0 %
Tax rate	30 %	30 %
WACC before tax²⁾	11.0 %	11.5 %

¹⁾ At market values ²⁾ Rounded

WACC Before Tax by Business Sector

	2008	since 2009
Laundry & Home Care	10.5 %	10.5 %
Cosmetics/Toiletries	10.5 %	10.5 %
Adhesive Technologies	12.0 %	12.5 %

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

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

$$\text{ROCE} = \text{EBIT} / \text{Capital Employed}$$

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

EVA® and ROCE in Fiscal 2008

In 2008, the Henkel Group generated a negative EVA® of -466 million euros, representing a fall of 935 million euros compared to the previous year. This decline was due in part to the increase of the weighted average cost of capital (WACC) before tax from 10 to 11 percent. The business sectors Laundry & Home Care and Cosmetics/Toiletries generated a positive EVA®. At 150 million euros, that of Cosmetics/Toiletries was slightly above the level of the previous year, while the 166 million euros posted by Laundry & Home Care fell short of the 183 million euros of the previous year due to a decline in operating profit. Within the Adhesive Technologies business sec-

EVA® and ROCE¹⁾

in million euros	Laundry & Home Care	Cosmetics/ Toiletries	Adhesive Technologies	Corporate	Group
EBIT	439	376	658	-694	779
Capital employed	2,604	2,151	6,590	-24	11,321
WACC²⁾	273	226	791	-3	1,245³⁾
EVA® 2008	166	150	-132	-692	-466³⁾
EVA® 2007	183	149	253	-116	469
ROCE 2008	in %	16.9	17.5	10.0	6.9
ROCE 2007	in %	16.7	16.7	16.9	15.4

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

²⁾ Calculated on the basis of the different sector-specific WACC rates applied

³⁾ Calculated on the basis of the WACC rate of 11.0 percent for the Henkel Group

tor, on the other hand, we generated a negative EVA® amounting to -132 million euros. This is attributable to the significant increase in capital employed resulting from the acquisition of the National Starch businesses. We also recorded a substantial decrease in the Corporate segment to -692 million euros due to the negative influence on operating profit arising from the restructuring expenses incurred in the wake of our "Global Excellence" program and the integration of the National Starch businesses.

Return on capital employed decreased from 15.4 percent to 6.9 percent. This is primarily attributable to negative developments in operating profit arising from the restructuring charges, and again the increase in capital employed arising from the acquisition of the National Starch businesses.

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 subject to rules and regulations with respect to the usage, storage, transportation and handling of certain substances and also in relation to emissions, wastewater, effluent and other waste. The construction and operation of production facilities and other plant and equipment are likewise governed by framework rules and regulations.

Product-specific regulations of relevance to us relate in particular to ingredients and input materials, safety of manufacture, product handling, and the packaging and marketing of the finished article. The control mechanisms involved range from material-related regulations, usage prohibitions or restrictions, and procedural requirements (test and inspection, identification marking, provision of warning labels, etc.), to product liability law.

Our internal standards ensure compliance with statutory regulations and the safety of our manufacturing facilities and products. The associated requirements have

been incorporated and implemented within and by our management systems, and are subjected to a regular audit and review regime. This includes monitoring and quickly implementing relevant legal requirements and statutory changes.

One example of a change in the statutory environment is the new European regulation on the registration, evaluation, authorization and restriction of chemicals (abbreviation: REACH), which controls the registration, evaluation and approval of chemical substances. The REACH 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 REACH requirements, we have established a central REACH management team for handling and controlling the main REACH processes.

Business Performance

World Economy

After a good start, 2008 began to be affected more and more by the onset of a worldwide recession. The rapidly rising raw material prices, the subprime and real estate crisis in the USA, which also affected a number of other countries, and the general financial malaise and crisis of confidence that arose as a result exerted an increasingly adverse influence on the real economy.

In Western Europe, the decline in economic output occurred at an earlier stage than in the USA as the US economy initially benefited from the introduction of tax concessions. However, the USA likewise slid into recession.

There was also a tangible slowdown in growth in many countries of Asia, particularly Japan and the Asian emerging nations. China and India once again revealed themselves to be comparatively robust with better growth figures than for the world economy as a whole.

This also applied to most of the economies of Eastern Europe.

The economies of Latin America likewise remained relatively stable. However, Mexico was already beginning to suffer from its proximity to the flagging US economy.

Private Consumption and Developments by Sector

The consumer climate clouded over noticeably in the industrial countries. At best, consumer spending increased only minimally; in some Western European countries such as Germany and Italy, private consumption actually declined. In many emerging markets, consumers likewise behaved more cautiously than in previous years, although overall consumption here continued to develop quite favorably; for example, most countries in Eastern Europe were able to generate positive growth rates. In Latin America, private consumption was an important factor in driving economic growth. In Asia, consumption lagged behind general economic expansion.

Fiscal 2008 was primarily characterized by an industrial downturn that affected most sectors and regions. Once again, the industrial countries were more heavily impacted than the emerging markets. US industry, which in the preceding years had only undergone moderate expansion, had to cope with reductions in manufacturing output. Industrial growth in Western Europe, which previously had supported overall economic expansion, came to a standstill. Many emerging nations were unable to quite repeat the strong dynamism that they had exhibited in previous years. China's industry alone was once again able to exhibit expansion in the double-digit percentage range, albeit likewise with growth slightly decelerating.

The automotive industry counted among the primary losers in the economic crisis. In the USA, the real estate crisis and the recession led to a significant decline in demand for automobiles, with a corresponding impact being felt by the producers. In Europe too, the crisis became significantly more noticeable. The major Western European countries in particular experienced significant reductions in both demand and production.

The performance of the automotive industry in the emerging nations of Asia and Latin America, on the other hand, was substantially more favorable. In some cases, the expansion rates registered were double-digit in magnitude, although even in China output growth noticeably slowed.

The electronics industry lost much of its momentum but was still able to show moderate growth. The pack-

aging industry and also in part metal manufacturing and processing underwent weaker growth, especially in the industrialized countries. The rate of rise in machine construction and mechanical engineering slowed down, albeit from a high base.

The building industry and, in particular, the home construction segment, went into a steep decline in many countries in 2008. This applies particularly to the USA where home construction dipped significantly. However, many Western European countries and Japan likewise had to cope with a contraction in their building activity. In most of the emerging markets, on the other hand, the construction industry underwent appreciable expansion.

Further details on developments with respect to specific segments and regions can be found in the individual business sector reports starting on **AR page 54**.

Management Board Review of Business Performance

Business performance at Henkel was characterized by the above-described economic conditions which significantly worsened as the year progressed. Having been able to achieve a strong organic sales growth rate in excess of our expectations in the first half of the year, we saw the rate of growth of our worldwide sales markets significantly slow in the second half of the year, particularly those served by the Adhesive Technologies business sector. Nevertheless, we were still able to grow more strongly than the relevant markets in all our business sectors. The rate of organic sales growth for the Henkel Group for the year as a whole, at 3.0 percent, was within our forecast range of 3 to 5 percent.

The situation in our procurement markets also became increasingly tense, particularly in the first nine months of 2008. The weak US dollar and a decline in demand in our sales markets during this period also burdened results. Nevertheless, having increased adjusted operating profit (adjusted¹⁾ EBIT) by 9.1 percent, we were able to meet our forecast, updated as the year progressed, of "around 10 percent".

¹⁾ Adjusted for one-time gains/charges and restructuring charges, and before amortization of intangible assets arising from the acquisition of the National Starch businesses

Forecast and Target Achievement in 2008

	Updated forecast 2008	Final figure 2008
Organic sales growth	3 – 5 %	3.0 %
Growth in adjusted EBIT ¹⁾	around 10 %	9.1 %
Growth in adjusted earnings per preferred share ¹⁾	low single-digit percentage range	3.2 %

¹⁾ Before amortization of intangible assets after purchase price allocation

Due to the worsening market conditions, back in February 2008 Henkel resolved to introduce an efficiency enhancement program under the name “Global Excellence”. The implementation of this program, the purpose of which is to increase the profitability and competitiveness of Henkel over the long term, progressed according to plan in the year under review.

A further major event in 2008 was the successful closing of the acquisition of the National Starch businesses Adhesives and Electronic Materials from Akzo Nobel. This has enabled us to significantly strengthen our leading position in the global adhesives market, particularly in the industrial segment. The integration of the businesses since the closing of the transaction in April 2008 has also progressed as scheduled.

The net debt of the Henkel Group, which increased as a result of the acquisition of the National Starch businesses, was reduced again in the course of the year partly as a result of cash flow from our operating activities and partly through the successful public offering of our stake in Ecolab Inc. on the stock markets. Our solid financial structure was underlined by affirmation of our A ratings.

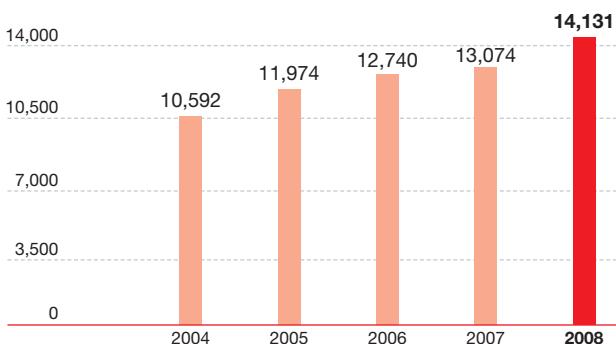
Sales and Profits

Henkel Group sales in 2008 amounted to 14,131 million euros, a rise of 8.1 percent compared to the figure for the previous year. After adjusting for foreign exchange, sales increased by 11.6 percent. This strong rise is due primarily to the acquisition of the National Starch businesses in April 2008. However, our organic sales growth, i.e. growth adjusted for foreign exchange, acquisitions and divestments, amounted to a good 3 percent. The rate

of growth nevertheless declined as the year progressed. While in the first half of 2008, the figure was 4.8 percent, this fell to 1.2 percent in the second half of the year due to the worsening economic climate.

Sales

in million euros



Sales Development¹⁾

	2008
Change versus previous year	8.1 %
Foreign exchange	-3.5 %
After adjusting for foreign exchange	11.6 %
Acquisitions/Divestments	8.6 %
Organic	3.0 %

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

Price and Volume Effects¹⁾

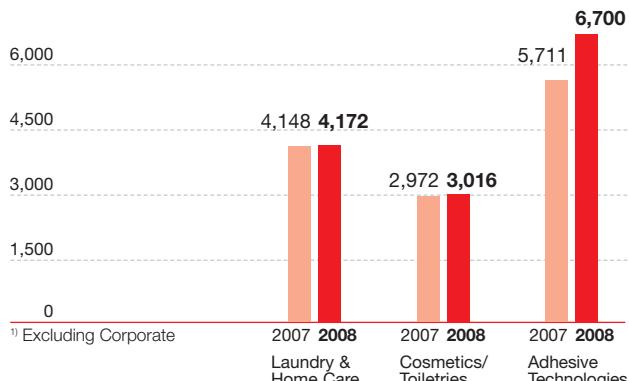
in percent	Organic sales growth	of which price	of which volume
Laundry & Home Care	3.8	3.2	0.6
Cosmetics/Toiletries	4.7	1.8	2.9
Adhesive Technologies	1.3	4.1	-2.8
Henkel Group	3.0	3.2	-0.2

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

All our business sectors were able to post an increase in organic sales. At Laundry & Home Care and also Adhesive Technologies, the contributions made to growth by prices and volumes during the course of the year showed a significant shift toward the price effect. In order to compensate for the significant increase in raw material costs, both business sectors implemented further price increases, particularly in the second half of the year.

Sales by Business Sector¹⁾

in million euros



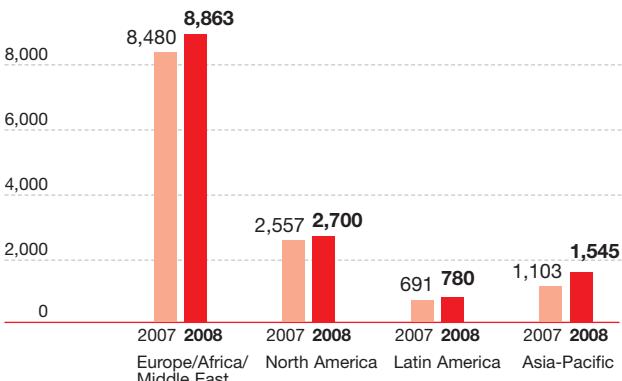
The growth in volume, which in the first six months had amounted to a still strong 3.5 percent, declined in the second half of the year in all three business sectors, finishing at -0.2 percent for the year as a whole – partly as a reaction to the price increases and partly as a consequence of the worsening economic environment.

In the regional breakdown too, the acquisition of the National Starch businesses had a positive effect, further accelerating the growth in sales in all regions. Europe/Africa/Middle East posted a significant sales increase of 4.5 percent to 8,863 million euros. At 3.7 percent, organic growth in this region was also above the level of the Henkel Group as a whole, with all three business sectors making similar contributions. The increase was predominantly attributable to the subregions of Eastern Europe and Africa/Middle East, both of which once again turned in substantial double-digit growth rates. Sales in Western Europe underwent a slight decline. Overall, the share of sales accounted for by the Europe/Africa/Middle East region decreased from 65 percent to 63 percent. This is due predominantly to the smaller share of sales generated in this region by the National Starch businesses.

Sales in North America rose by 5.6 percent to 2,700 million euros. The increase after adjusting for foreign exchange was 13.3 percent. In organic terms, specifically after adjusting for the National Starch businesses, sales decreased by 1.4 percent. This is attributable to the results of the Adhesive Technologies business sector which suffered significantly in the second half of the year as world economic conditions deteriorated.

Sales by Region¹⁾

in million euros



By contrast, Laundry & Home Care and particularly Cosmetics/Toiletries posted further increases in organic sales within a difficult market environment. The share of total Group sales accounted for by the North America region decreased from 20 to 19 percent.

Latin America continued to perform very well, posting an increase in sales of 12.8 percent to 780 million euros. After adjusting for foreign exchange, sales in this region grew by 18.5 percent in total, and 10.7 percent in organic terms, with all our business sectors contributing. The share of total Group sales attributable to Latin America remained constant at 5 percent.

The effects of the decline in economic growth were most apparent in the Asia-Pacific region. While sales grew by 40.1 percent to 1,545 million euros, and by 47.0 percent after adjusting for foreign exchange, this was primarily due to the acquired National Starch businesses. The region's share of total Group sales also increased significantly from 8 to 11 percent. Organic sales growth came in at 2.2 percent. While growth in the first half of the year was encouraging, it tailed off during the second half. Nevertheless, all our business sectors were able to also post an increase in organic sales, the highest rates coming from Laundry & Home Care and Cosmetics/Toiletries.

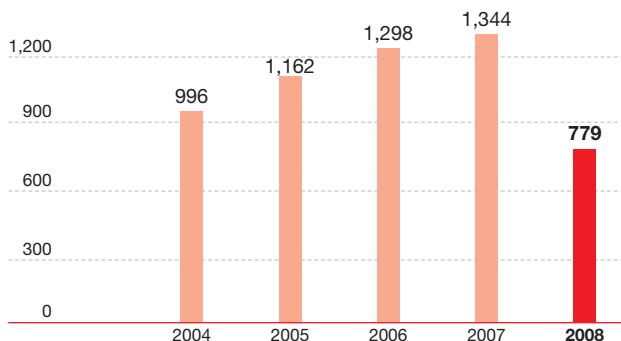
Our growth regions of Eastern Europe, Africa, Middle East, Latin America and Asia (excluding Japan) posted an increase in sales of 17.8 percent to 5,167 million euros. As a result, their share of total sales also rose further – from 34 to 37 percent. After adjusting for foreign exchange, growth amounted to 22.4 percent. Organic growth came

in at a robust 12.9 percent, with all our business sectors contributing in roughly equal measure. Although the rate of business expansion also slightly weakened in the growth regions as the year progressed, our business sectors were able to sustain double-digit growth rates in all these emerging markets with the exception of Asia.

At 779 million euros, operating profit (EBIT) was well below the prior-year figure of 1,344 million euros.

EBIT

in million euros



This decrease is mainly due to the restructuring charges and one-time expenses incurred in relation to our efficiency enhancement program "Global Excellence" and the integration of the National Starch businesses.

The following commentary on our operating performance ignores the one-time gains/charges and restructuring charges.

We succeeded in increasing adjusted operating profit ("adjusted EBIT") by 6.6 percent to 1,460 million euros.

Included in this figure is amortization of intangible assets amounting to 35 million euros arising from the

Adjusted EBIT

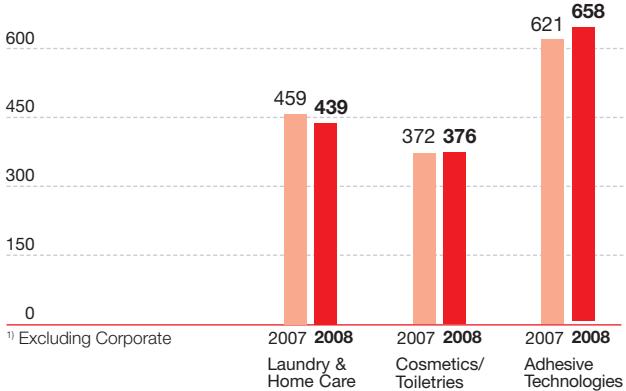
in million euros	2007	2008	%
EBIT (as reported)	1,344	779	-42.0
One-time gains	-8	-30	
One-time charges	-	48	
Restructuring charges	34	663	
Adjusted EBIT	1,370	1,460	6.6
Amortization of intangible assets (National Starch)	-	35	
Adjusted EBIT before amortization after purchase price allocation (basis for 2008 forecast)	1,370	1,495	9.1

acquisition of the National Starch businesses. As the purchase price allocation had not yet been completed at the time of issue of our last forecast at the beginning of November, this did not take into account this amortization. The relevant comparable figure for assessing our target achievement is therefore an adjusted operating profit of 1,495 million euros. This corresponds to a rise of 9.1 percent with respect to the comparable prior-year figure of 1,370 million euros and lies within the range of our updated forecast delivered in November of "around 10 percent". This increase is predominantly due to the consolidation of the National Starch businesses.

Return on sales amounted to 5.5 percent. Adjusted return on sales decreased by 0.2 percentage points to 10.3 percent; before amortization of intangible assets arising from the acquisition of the National Starch businesses, return on sales rose by 0.1 of a percentage point to 10.6 percent. Our two business sectors Laundry & Home Care and Adhesive Technologies were particularly affected by substantial price increases in the raw material markets. We were able to pass on a large portion of the rise in material costs through price increases of our own, or offset these additional expenses through internal measures aligned to cost reduction and efficiency improvements. The first savings realized from our "Global Excellence" program and the integration of the National Starch businesses, plus additional cost-reducing measures, also had a positive effect on our profitability, particularly in the fourth quarter. As a result, adjusted return on sales for this quarter rose to 10.7 percent and remained roughly constant over the year as a whole. The rapid rise in raw material costs and the difficult

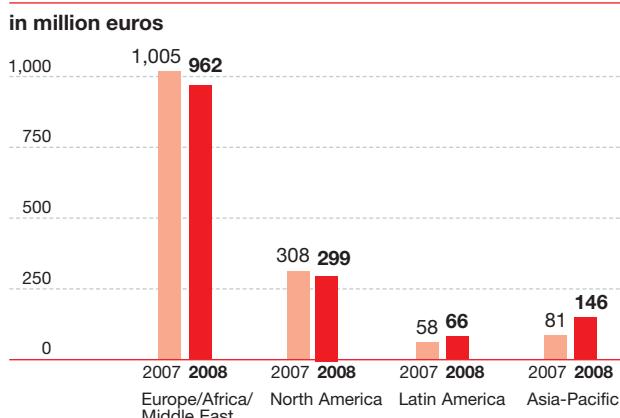
EBIT by Business Sector¹⁾

in million euros



market conditions encountered also impacted the earnings performance of the individual regions:

EBIT by Region¹⁾



¹⁾ Excluding Corporate

In Europe/Africa/Middle East, operating profit fell by 4.3 percent (−2.8 percent after adjusting for foreign exchange). While Cosmetics/Toiletries was able to post a slight increase in EBIT after adjusting for foreign exchange, there was a decline in this metric in the other two business sectors. At 10.9 percent, return on sales in this region fell versus the prior-year level of 11.9 percent.

In North America, operating profit decreased by 2.8 percent. This is due exclusively to adverse foreign exchange movements. After adjusting for this impact, profits increased both in the region as a whole (by 4.9 percent), and also in all our business sectors, despite the difficult economic environment. However, return on sales fell to 11.1 percent, due primarily to the decline suffered by Adhesive Technologies.

We increased operating profit in Latin America by 14.3 percent (20.3 percent after adjusting for foreign exchange), with all our business sectors contributing. Return on sales in this region improved by 0.1 of a percentage point to 8.5 percent.

The Asia-Pacific region also saw a further significant increase in profitability, with the operating result improving by 80 percent (92 percent after adjusting for foreign exchange). Growth here was generated by Cosmetics/Toiletries and Adhesive Technologies. Return on sales in Asia-Pacific improved by 2.1 percentage points to 9.4 percent, driven primarily by Adhesive Technologies.

Further details relating to our business performance can also be found in the reports dealing with the individual business sectors starting on [AR page 54](#).

“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 was undertaken in the face of accelerating change in prevailing market conditions, an increasingly challenging competitive environment and rising cost pressures.

“Global Excellence” provides for a number of individual measures extending to 2011 and affecting all our business sectors, regions and functions. In total, we spent 504 million euros on this program in 2008. Due to the strategic alignment of the program and its importance for the further development of the Henkel Group, these expenses are reported in the Group segment report under the Corporate segment with a breakdown by business sector.

Of this amount, 189 million euros is attributable to the Laundry & Home Care business sector, 100 million euros to Cosmetics/Toiletries, 161 million euros to Adhesive Technologies and 54 million euros to Corporate functions.

In regional terms, 363 million euros is attributable to Europe/Africa/Middle East, 99 million euros to North America, 9 million euros to Latin America and 33 million euros to Asia-Pacific.

The purpose of the “Global Excellence” initiative is to achieve annual savings of around 150 million euros effective from 2011.

Essentially, we have introduced the “Global Excellence” program in order to strengthen the long-term profitability and competitiveness of Henkel. This initiative has enabled us to respond to changes in our markets, improving our production network and expanding our utilization of shared services.

A major step in this regard was the reorganization of Corporate Research. Effective July 1, 2008, this central division was dissolved and its research departments incorporated into the research units of our three operating business sectors, strengthening their specific R&D activities and reducing time to market.

A further important “Global Excellence” measure relates to the consolidation of our liquid detergent production activities in Europe. We have already begun implementing this process, which entails the closure of manufacturing facilities in Germany and Spain with transfer of the associated volumes to more favorably located sites.

We stepped up the process of transferring our financial processes to our in-house shared service centers in Bratislava in Slovakia and Manila in the Philippines. The Bratislava site is primarily responsible for our European activities while Manila supports Asia and North America.

Expense Items

The cost of sales for the year under review rose by 16.8 percent to 8,190 million euros. Consequently, gross profit decreased to 5,941 million euros; gross margin declined to 42.0 percent. There were two main reasons for this: the further strong increases in raw material prices which we were unable to fully offset through our countermeasures; and the restructuring charges arising primarily from our efficiency enhancement program “Global Excellence”. The consolidation of the National Starch businesses also had an impact, albeit more minor in magnitude. Without the restructuring charges and the acquisition, gross margin would have decreased only slightly. The following expense items were also impacted by the two aforementioned factors:

At 3,993 million euros, marketing, selling and distribution expenses rose by 6.5 percent compared to the prior-year figure. After adjusting for restructuring charges, the rise was 3.6 percent.

Our research and development expenses totaled 429 million euros, representing an increase of 22.6 percent. The R&D ratio, i.e. research and development expenses expressed as a proportion of sales, came in at 0.3 percentage points above the 2.7 percent recorded for 2007. After adjusting for restructuring charges, and particularly those relating to the dissolution of the Corporate Research division as of July 1, 2008 retroactive to January 1, 2008, the R&D ratio remained at the level of the previous year.

Administrative expenses increased by 24.2 percent to 825 million euros. After adjusting for the restructuring

charges included in that figure, the rise amounted to 7.7 percent. The precise distribution of the restructuring charges between the various functions is explained on [AR page 74](#).

Other Operating Charges and Income

The increase in the positive balance between operating income and charges of 40 million euros is partly due to the first-time consolidation of the National Starch businesses and partly due to the disposal in the year under review of our water treatment business, which yielded a gain of 8 million euros.

Financial Result

The financial result for 2008 reflects the gain of 1,042 million euros arising from the sale of our participating interest in Ecolab Inc. Overall, the financial result increased by 942 million euros to 848 million euros. Income from this investment consolidated at equity was 5 million euros below the level of the previous year due to the sale of our Ecolab stake in November 2008, resulting in the at-equity income being recognized on a pro rata temporis basis. Net interest expense was primarily affected by the financing of the acquisition of the National Starch businesses, resulting in an increase of 97 million euros to -275 million euros.

Net Earnings

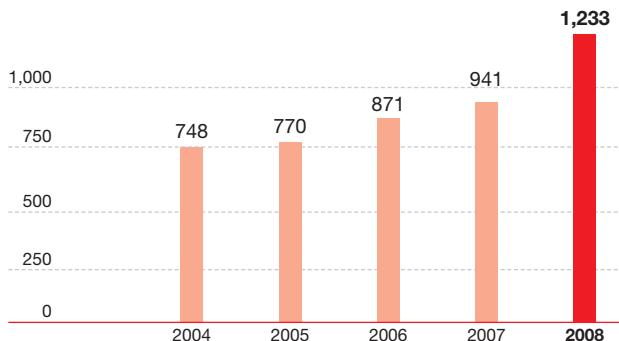
Earnings before tax increased by 30.2 percent to 1,627 million euros. Taxes on income amounted to 394 million euros. At 24.2 percent, the tax rate was slightly below the level of the previous year.

Net earnings for the year increased by 292 million euros to 1,233 million euros. After deducting minority interests of 12 million euros, earnings totaled 1,221 million euros. Adjusted net earnings after minority interests, i.e. the figure after allowing for one-time gains/charges and restructuring charges, increased by 4 million euros to 945 million euros.

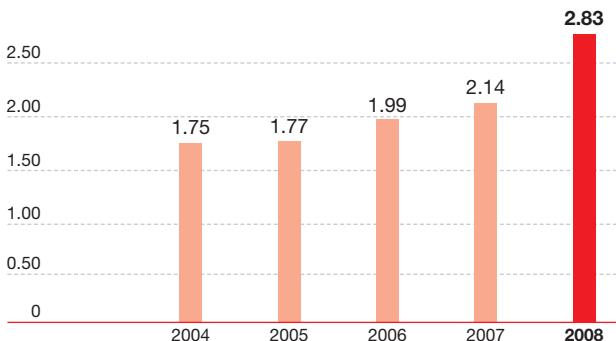
The annual financial statements of the parent company of Henkel AG & Co. KGaA are summarized on [AR page 129](#).

Net Earnings

in million euros

**Earnings per Preferred Share¹⁾**

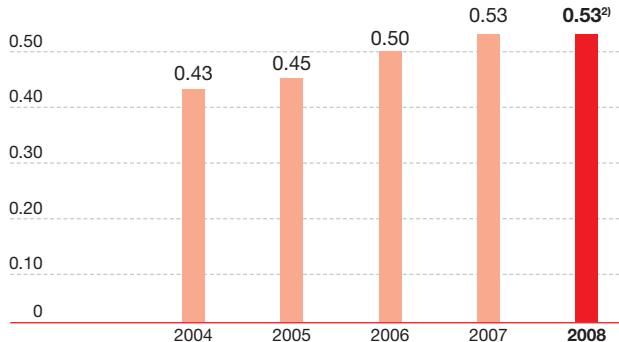
in euros

¹⁾ Basis: share split (1:3) of June 18, 2007**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. In view of our earnings performance, the proposal to be put before the Annual General Meeting will be for the dividends payable on both classes of share to remain unchanged. This will yield payouts of 0.53 euros per preferred share and 0.51 euros per ordinary share.

Preferred Share Dividends¹⁾

in euros

¹⁾ Basis: share split (1:3) of June 18, 2007²⁾ 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 increased from 2.14 euros in 2007 to 2.83 euros in 2008. Earnings per ordinary share rose from 2.12 euros to 2.81 euros. Adjusted earnings per preferred share for 2008 amounted to 2.19 euros, the same figure as in the previous year.

The Stock Incentive Plan introduced in 2000 resulted in a dilution of earnings per ordinary and preferred share. The options from all five tranches issued were "in the money" based on the average stock market price for the preferred share. This effect derives from 337,396 preferred shares that could potentially flow back into the market. The resultant dilution in earnings per ordinary and preferred share amounts to 2 eurocents compared to basic earnings per share.

Assets and Financial Analysis**Acquisitions and Divestments**

The Laundry & Home Care business sector acquired the shares from minority shareholders in Egypt and Serbia for a total of around 7 million euros.

With the acquisition of Hakanit Oy, Finland, Cosmetics/Toiletries took over an earlier distributor for 17 million euros in order to be able to better utilize existing potential in the market through a direct presence. In addition, this business sector disposed of a number of relatively small brands in the USA and the UK for a total of approximately 5 million euros as part of its ongoing portfolio review.

The focus of the acquisition activities undertaken at Adhesive Technologies in 2008 was on the purchase of the Adhesives and Electronic Materials businesses owned by National Starch. As a result of this strategic acquisition, we have been able to expand our leading position with respect to adhesives for industrial applications and also in the electronics industry, and especially in the growth markets of Asia. This acquisition was supplemented by

smaller, complementary acquisitions and takeovers of minority shareholdings in the Maghreb region and in Ukraine. The total spend was 3.7 billion euros. The business sector sold its European water treatment business and also a minority shareholding in the Japanese company Cemedine. Total proceeds of these sales amounted to around 55 million euros.

In November, we successfully placed our shareholding in Ecolab Inc. on the stock exchange. Including the over-allotment option (green shoe), the proceeds of the sale amounted to some 1.7 billion euros.

National Starch: Integration of Operational Activities

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

The transaction was conducted as a back-to-back agreement with Akzo Nobel. This had a significant influence on the integration procedure adopted. Following the takeover of ICI (and thus the complete portfolio of National Starch businesses) by Akzo Nobel at the beginning of 2008, carve-out transactions were initiated in order to disentangle the businesses to be acquired by Henkel. Achievement of this initial process constituted a prerequisite for the closing on April 3, 2008.

Back in 2007, a management team was put together and this has since focused on the integration of the National Starch businesses. Even before the closing, a detailed integration plan had already been drafted.

A merging of the organizational structures has now been completed. The overall concept for realizing the planned synergies has been finalized and broken down into individual projects and we are now successfully

working on their implementation. We have confirmed our synergy target of 250 million euros for 2011.

In 2009, the integration emphasis will lie particularly in the areas of sales synergies, production and information technology. We will also continue to drive forward the measures instigated, some of which have already been completed, with the focus on achieving advantages of scale in production and development.

Our priorities lie in securing the permanently high quality of our products and services while continuing to communicate with and provide support to our customers. A further aim during the integration phase is to consolidate and further expand our positions in the marketplace.

Capital Expenditures

Capital expenditures (excluding financial assets) totaled 4,069 million euros in the year under review. Investments in property, plant and equipment for our continuing operations amounted to 473 million euros and were thus 3 million euros above the prior-year figure. A majority share of these expenditures went into the establishment and expansion of production capacities. A further portion was spent on structural improvements such as the merging of certain administrative and manufacturing sites. The major individual projects implemented in 2008 were as follows:

- » Relocation of our Turkish detergent manufacturing operation from Izmir to Ankara, accompanied by an increase in capacity (Laundry & Home Care).
- » Construction of a production plant for highly concentrated liquid detergents in St. Louis, Missouri, USA (Laundry & Home Care).
- » Completion of the new main administration building and the development center in Scottsdale, Arizona, USA (Laundry & Home Care and Cosmetics/Toiletries).
- » Expansion of our production plant for methyl cellulose in Düsseldorf (Adhesive Technologies).
- » Commissioning of a new factory for building adhesives in Kazakhstan (Adhesive Technologies).

Capital Expenditures 2008

in million euros	Continuing operations	Acquisitions	Total
Intangible assets	20	3,224	3,244
Property, plant and equipment	473	352	825
Total	493	3,576	4,069

In regional terms, the emphasis of our capital expenditures in 2008 lay in North America and Europe.

In 2009, spending on property, plant and equipment is to focus on Europe. Major investments in our Laundry & Home Care and our Cosmetics/Toiletries business sectors will involve the construction of production facilities for the manufacture of innovative products coupled with structural optimization measures. For the Adhesive Technologies business sector, the capital expenditure focus in 2009 will again be on the integration of the production capacities and information technology of National Starch.

Balance Sheet Structure

Following the acquisition of the National Starch businesses, total assets as of the end of fiscal 2008 increased by 3,026 million euros (23.2 percent) to around 16.1 billion euros. There was an increase in virtually every balance sheet item. Non-current assets rose by 3,330 million euros. Included under intangible assets are the goodwill and other separately measured asset items arising from the acquisition. Property, plant and equipment rose by 284 million euros. The additions arising from the acquisition amounted to 352 million euros

and other additions made in the course of the year valued at 473 million euros were offset by disposals and write-downs of 71 million euros and 447 million euros respectively. Currency translation losses amounted to 23 million euros.

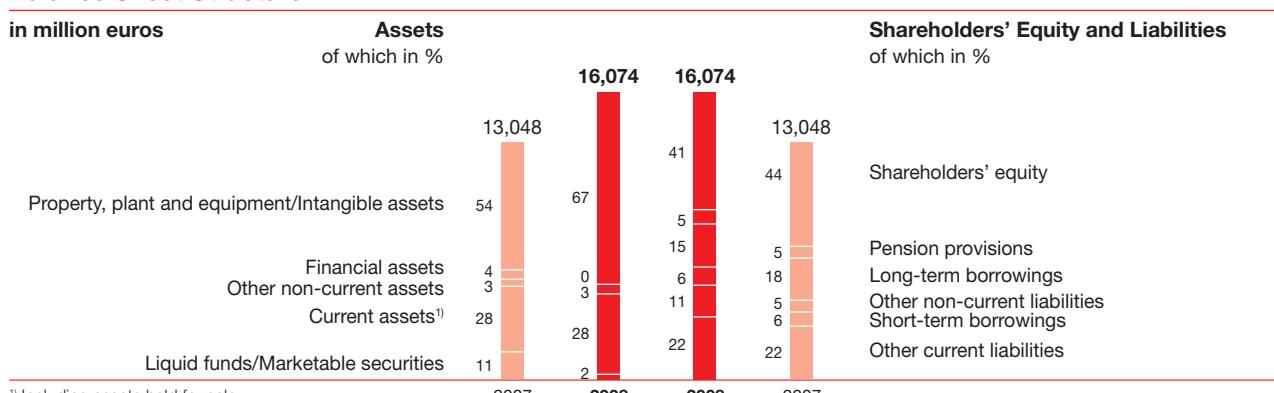
Financial assets decreased as a result of the sale of our at-equity investment in Ecolab Inc. in November 2008.

Under current assets, the total of which decreased by 304 million euros, there was an acquisition-related increase in trade accounts receivable and inventories amounting to 352 million euros.

Due to the uncertainty of the financial markets, we refrained from depleting our liquid funds. Intent on securing our liquidity, we did not use the proceeds from the sale of our Ecolab investment to redeem the so-called bridge loan, which would have been possible in principle, instead investing these funds in short-term fixed deposits. These have been offset against the bridge loan. Assets shown as available for sale relate to a production facility belonging to the Cosmetics/Toiletries business sector and the Consumer Adhesives unit of the Adhesive Technologies business sector in North America.

Shareholders' equity including minority interests increased by 829 million euros to 6,535 million euros. This was due to net earnings of 1,233 million euros and foreign currency translation gains of 103 million euros taken to equity from the financial statements of our affiliated companies, offset by dividend payouts of 232 million euros, actuarial losses amounting to 186 million euros, and impairment losses on derivatives in the amount of 100 million euros. The equity ratio decreased compared

Balance Sheet Structure



¹⁾ Including assets held for sale

to the previous year by 3.1 percentage points due to the higher balance sheet total resulting from the acquisition of the National Starch businesses.

Non-current liabilities increased by 595 million euros. The rise is attributable to higher provisions for pensions and similar obligations as of the balance sheet date and to provisions for restructuring measures related to the efficiency enhancement program “Global Excellence” and the integration of the National Starch businesses. Current liabilities increased to 5,293 million euros attributable to the higher borrowings arising from the acquisition of the National Starch businesses.

Net debt amounted to 3,881 million euros, an increase of 2,179 million euros compared to the prior-year figure.

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 distributed within the Group. The primary goals of financial management are to achieve a sustainable increase in shareholder value and to secure the creditworthiness and liquidity of the Group. Reducing our capital costs and improving our cash flow from financing activities make a major contribution to the attainment of these objectives, as do optimization of our capital structure and effective risk management.

Our creditworthiness is regularly checked by independent rating agencies.

The long- and short-term ratings (“A/A2” and “A-1/P1”) attributed to Henkel have remained unchanged since August 13, 2007. Following the sale of our investment in Ecolab Inc. in November 2008, they were once again affirmed both by Standard & Poor’s and by Moody’s.

Credit Ratings

	Standard & Poor's	Moody's
Long-term	A	A2
Outlook	stable	negative
Short-term	A-1	P1

At December 31, 2008

Our financial strategy is aligned to the single-A rating category as a means to maintaining our financial flexibility. 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, 2008, our long-term financial liabilities amounted to 2.4 billion euros. Included in this figure are the hybrid bond with a nominal value of 1.3 billion euros, issued in November 2005, and also the fixed-interest bond of 1 million euros issued in May 2003.

Our current liabilities, i.e. those with maturities of less than 12 months, amounted to 1.8 billion euros at year-end. These essentially comprise interest-bearing loans and overdrafts from banks. The rise in short-term borrowings compared to the previous year is essentially due to the difference between the funds obtained to finance the purchase price for the two businesses Adhesives and Electronic Materials from Akzo Nobel (former National Starch divisions) and the funds received from the sale of our investment in Ecolab Inc.

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 table showing financial ratios on [AR page 45](#)).

For further information on our financial management approach and our financial instruments, please refer to Notes 41 and 42 to the consolidated financial statements starting on [AR page 110](#).

Cash Flow Statement

At 1,165 million euros, **cash flow from operating activities** was 156 million euros below the prior-year figure. Outflows due to the restructuring measures implemented as part of our efficiency enhancement program “Global Excellence” and the integration of the National Starch businesses, coupled with increased income tax payments, had a burdening effect on operating cash flow. Strict management of our net working capital, i.e. inventories

and trade accounts receivable and payable, continued to have a stabilizing effect on our cash flow level. Despite the significant higher business volumes recorded in fiscal 2008, the consumption of funds remained virtually unchanged.

Cash flow from investing activities/acquisitions was significantly affected by outgoings from acquisitions in the amount of 3,708 million euros, primarily in relation to the purchase of the National Starch businesses. These outflows were offset by proceeds from the disposal of non-current assets arising from the sale of our shares in Ecolab Inc.

Cash flow from financing activities reflects in particular the financing of the National Starch acquisition. The outflow of funds arising from the payment of interest and dividends rose by 306 million euros, due primarily to contributions to pension fund assets. The acquisition-related increase in borrowings led to a cash inflow from financing activities in the amount of 757 million euros.

Key Financial Ratios

Our key financial ratios were significantly affected in 2008 by the financing of the acquisition of the National Starch businesses. The increase in net borrowings had a burdening effect on both our debt coverage and gearing ratios. The increase in interest expense in conjunction with expenditures for restructuring, which are charged against EBIT, resulted in a decrease in the interest coverage ratio. The gain from the sale of our investment in Ecolab Inc., on the other hand, had a positive effect on these financial ratios.

Employees

The number of people employed by the corporation at the end of fiscal 2008 was 55,142.

In the course of the year, headcount rose by 2,514. Per capita sales increased further to 254,600 euros. Henkel Group payroll costs increased by 88 million euros to 2,436 million euros.

The main reason for the rise in the number of employees was the acquisition of the National Starch businesses. This involved the integration of almost 6,000 people in around 40 countries on all continents. After a period of intensive preparations in the first quarter of 2008, we were able to welcome the new employees to Henkel as of April 3 – referred to as Day One. In order to promote rapid integration, we issued a comprehensive questionnaire in advance of this date aimed at determining the commonalities and differences that exist between the two corporate cultures. Based on this, a thorough analysis of the newly acquired businesses and assessments of some 150 senior managers around the world, we were able to make appointments to the first three tiers of the new organization by the end of the second quarter, duly assigning personnel to the most important management positions. During the second half of the year, we examined the personnel instruments of National Starch in detail with the objective of incorporating the new employees from most of the countries involved within the personnel systems of Henkel by the beginning of 2009.

Meanwhile, we also instituted measures at an early stage through our “Global Excellence” program in order to adjust to the changes taking place in the economic conditions underlying our businesses. The program focuses on efficiency enhancement, the optimization of our

Key Financial Ratios

	2007	2008
Interest coverage ratio (<i>EBITDA/Net interest expense including interest element of pension provisions</i>)	9.4	4.8
Debt coverage ratio (<i>Net earnings before minority interests + Amortization and depreciation + Interest element of pensions/Net borrowings and pension provisions</i>) ¹⁾	74.3 %	44.1 %
Equity ratio (<i>Equity/Total assets</i>)	43.7 %	40.6 %
Gearing (<i>Net borrowings and pensions/Equity</i>)	0.41	0.72

¹⁾ Hybrid bond included on 50 percent equity basis

Employees

(at December 31 ¹⁾)	2004	%	2005	%	2006	%	2007	%	2008	%
Europe/Africa/Middle East	33,227	65.5	33,267	63.8	33,326	64.3	33,687	64.0	33,485	60.7
North America	6,772	13.4	7,271	14.0	6,651	12.8	6,438	12.2	7,360	13.4
Latin America	4,325	8.5	4,208	8.1	4,297	8.3	4,268	8.1	4,293	7.8
Asia-Pacific	6,411	12.6	7,355	14.1	7,545	14.6	8,235	15.7	10,004	18.1
Total	50,735	100.0	52,101	100.0	51,819	100.0	52,628	100.0	55,142	100.0

¹⁾ Prior-year figures restated; base: permanent employees excluding trainees

processes and structures, and the streamlining of our workflows. In February 2008, we announced the loss of around 3,000 jobs as part of this program, spread across all our regions, business sectors and functions. We will implement the redundancies in a socially responsible manner in keeping with the principles of our organization. And these redundancies will likewise be distributed over all levels of our corporate hierarchy.

Despite the need for efficiency enhancement, we have continued to hire new people around the world, particularly in our growth regions. In this process, we are relying more and more on the facilities of online recruitment. In 2008, we also converted our career-related suitability test to a purely internet-based tool. In order to attract the attention of top talents at an early stage in their development, we instituted an internet student competition under the "Henkel Innovation Challenge" banner in 2008, similar to that of 2007, but this time extending it to further business sectors and to applicants from eleven countries. The 2007/2008 competition was a great success and brought the added benefit of underpinning the attractiveness of Henkel as a prospective employer.

In Germany, Henkel offers apprenticeships and entry qualifications at twelve sites, covering more than 20

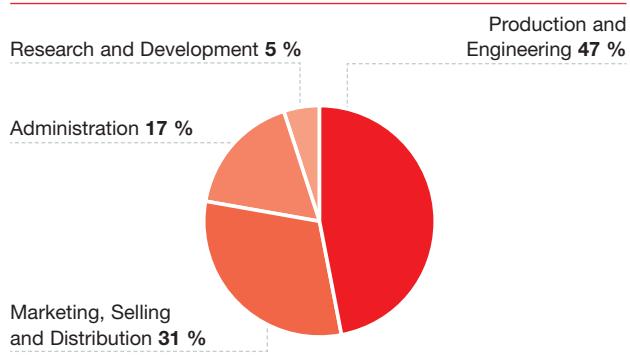
professions. Overall, we hired 10 percent more trainees at our German sites in 2008 than in the year before. The number of applications increased significantly, confirming the attractiveness of training positions at Henkel. And we have extended our training curriculum for 2009 to include so-called dual study courses.

In addition to modifying our talent-finding processes, we have also thoroughly revised our approach toward personnel development and expertise retention. In future, line managers will discuss the potential and performance of their employees within the framework of talent development panels, chaired by personnel managers, in order to enable the creation of tailored, individual development plans. The experience gained with the upper management tiers in 2008 has fully confirmed the efficacy of this new instrument. Consequently, we intend to introduce it worldwide for our employees at all levels in 2009.

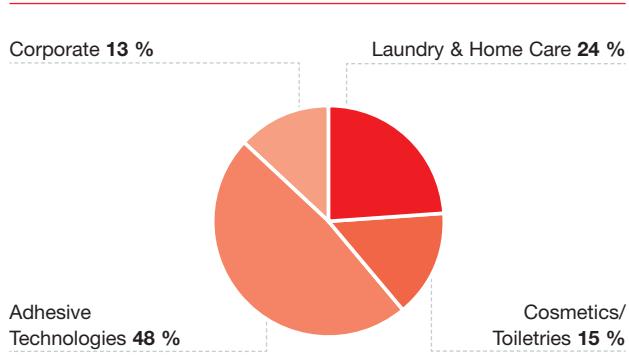
We have begun to review our monetary compensation systems, focusing on increasing the performance differential and creating a clear link between personal contribution, individual remuneration and the economic success of the corporation.

We aim to promote managers primarily from within our own organization, with the selection process essen-

Employees by Function



Employees by Business Sector



tially based on technical and managerial competence, performance delivery and entrepreneurial approach. Our managerial staff are regularly trained using our "Henkel Global Academy" resource covering topics such as "Leadership", "Change Management" and "Business Strategy". They are also individually evaluated in our "Global Assessment Centers", enabling us to provide specific support in the development of their managerial skills.

During 2008, we defined and implemented a range of ground-breaking measures aligned to establishing a global strategy for diversity and inclusion. Among other things, we expect that the final three candidates shortlisted for new positions and replacements satisfy certain diversity criteria in relation to age, gender or nationality. The strategic significance of our diversity and inclusion measures is also underlined by the fact that "strengthening our global team" is one of our three strategic priorities.

Procurement

Fiscal 2008 was characterized by severe price fluctuations on the raw material and packaging markets, the like of which have never been seen before. These were accompanied by significant shortages in a number of key segments which resulted in substantial price increases in the procurement markets during the first nine months. In the fourth quarter, by contrast, we began to see the first effects of the global economic crisis with the accompanying decrease in demand reflected in declining prices.

Our expenditures on direct materials (raw materials, packaging, contract manufacturing and traded goods)

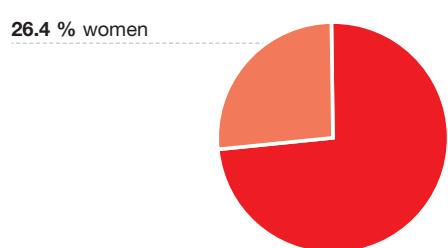
in the year under review amounted to 6.6 billion euros. This represents an increase of around 1 billion euros compared to the previous year, largely due to the acquisition of the National Starch businesses. We were able to mitigate the partly very high price increases for our raw materials through the implementation of global procurement strategies, albeit without being able to fully offset the ensuing effects.

Aside from price increases – affecting in particular petrochemical and natural base stocks – also certain supply and demand scenarios and foreign exchange influences had a significant effect on prices at the various stages of the global value chain. Due to the downstream position of the raw materials we use within the different value chains, the impact of the price developments in basic raw materials only reached us with a time lag. Adopting an active price management approach, we instituted strategies aimed at safeguarding prices over the long term using both contracts and also – where possible and reasonable – financial hedging instruments.

A key success factor in offsetting material price increases is our global program for the reduction in overall procurement cost. In this program, Purchasing works together with the business sectors, Research and Development, and Supply Chain Management in an ongoing effort to reduce product complexity, be it through re-engineering, substitution or the standardization of packaging and raw materials. Progress in these endeavors provides us with stronger negotiating positions and creates scope for the further consolidation of our supplier base. Another part of the program is dedicated to the further globalization of that supplier base in order

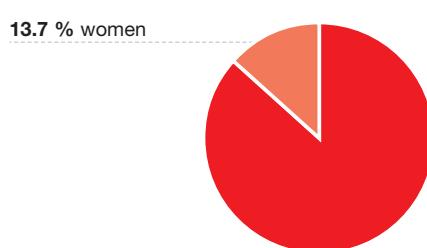
Management Structure

Total managerial staff



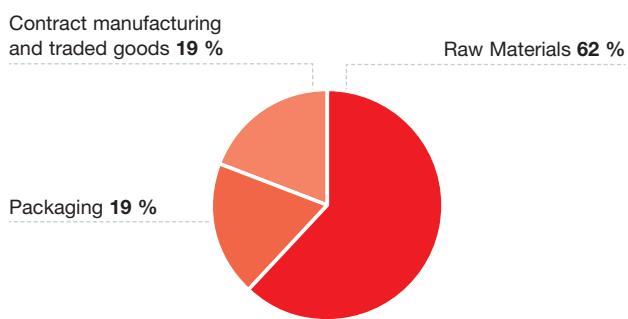
9,711 employees; average age: 42.6; 77 nationalities

Senior executive personnel



795 employees; average age: 47.1; 44 nationalities

Expenditures by Type



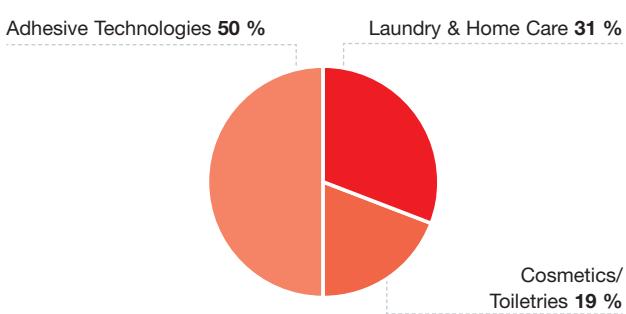
to further reduce our dependency on market price developments and market-dominating suppliers.

With the purchasing synergies available to us from the newly acquired National Starch businesses, we have been able to negotiate new contractual conditions and select strategic vendors so that, in the next phase of this process, we can work together with them in order to significantly reduce the complexity of our materials portfolio.

Our five most important raw material groups are surfactants, raw materials for polyurethane-based adhesives, plastiols for use in adhesives and sealants, raw materials for the manufacture of hotmelt adhesives, and inorganic base stocks for use in manufactures such as detergents and surface pre-treatment products. These account for around 28 percent of our total direct materials expenditure. Our five largest suppliers account for around 13 percent of our cost of direct materials.

Increasing importance is also being assigned to the fields of indirect materials, services and logistics. Together, these represent an annual outlay of some 3.5 billion euros, or around one third of total procurement expenditure at Henkel. Here we have been able to combat price and cost increases, particularly in the fields of fleet management, utility supplies and logistics, through savings measures. These were initiated both regionally and globally in all the relevant categories on the basis of cross-functional procurement strategies.

Expenditures by Business Sector



Production

Henkel has production sites in 57 countries around the world. Our largest site is in Düsseldorf, Germany, where we manufacture detergents and cleaning products, adhesives for craftsmen and consumers, and products for our industrial customers.

The largest production site serving the Laundry & Home Care business sector is likewise located in Düsseldorf. Here we primarily manufacture powder detergents, although liquid cleaners, high-compact detergents (Megaperls) and detergents in tablet form (tabs) are also produced. Our largest facility serving our Cosmetics/Toiletries business sector is located in Wassertrüdingen, Germany. In addition to body and hair care products for consumers, we also manufacture specialties for the salon business there. The two largest sites for Adhesive Technologies are likewise located in Germany, in Düsseldorf – with a portfolio of high-quality specialty adhesives for industrial and consumer applications – and in Heidelberg where we manufacture a wide range of adhesives and sealants.

As part of the efficiency enhancement program announced in February 2008, we want to further improve our production network with the focus on reducing the number of manufacturing sites in the more mature markets. We also intend to further eliminate complexity at the product level and want to increase collaboration with external partners, for example with suppliers and contract manufacturers.

Particularly where compact products with a low specific weight are concerned, the cost of transportation is less of a factor so that these can be produced at central, highly automated facilities. For large-volume products, we strive to reduce transport costs and the associated

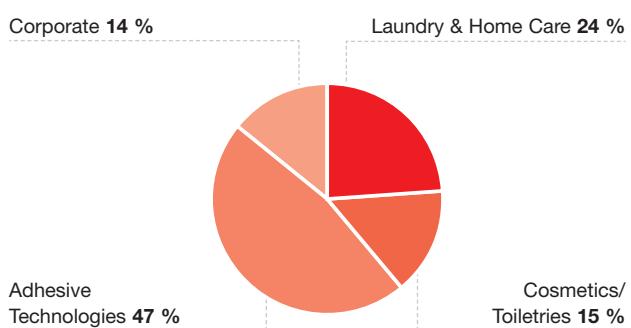
environmental burden through the establishment of local production sites.

We are also permanently engaged in the improvement of existing facilities and the development of new plants, processes and structures for the purpose of constantly enhancing the safety of our sites while reducing resource consumption and environmental burden. Moreover, comprehensive measures aligned to increasing product quality and production efficiency have been implemented in all our business sectors. As a result, we have been able to further improve on many of our environmental parameters (for more details, see "Sustainability" starting on **AB** page 52).

Research and Development

In fiscal 2008, we dissolved our Corporate Research division, distributing the resources to our three business sectors. As a result, our R&D structure is now even more market-aligned, resulting in an even faster rate of new product launches.

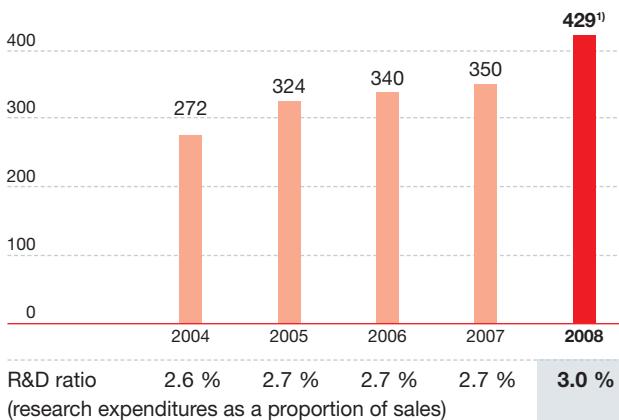
R&D Expenditures by Business Sector



Expenditures on research and development at Henkel amounted to 429 million euros in 2008, compared to 350 million euros in the previous year. About half of this increase is due to the restructuring charges incurred. The R&D ratio expressed as a share of sales was 3.0 percent. Without the restructuring charges, the figure would have been 2.7 percent as in the previous year. As an annual average, the number of employees working in research and development at our sites around the world was 2,942, the majority of whom are deployed in Germany and the USA. Our new research facility in Shanghai, which opened in 2007, reached full capacity in 2008.

R&D Expenditures

in million euros



¹⁾ Includes restructuring charges of 52 million euros

The biggest challenge in the year under review involved integrating the National Starch organization which, by contributing 500 employees, now supports our research and development effort.

The concept of "open innovation" plays an important role in the research and development strategy pursued by Henkel. Consequently, we have increased the funds allocated to collaborations with external partners, enabling us to harness expertise on a global scale to the best possible benefit of the Group as a whole.

We have now integrated our collaboration partner Phenion of Düsseldorf as an independent department within the research and development unit of the Cosmetics/Toiletries business sector. Its successful research into skin and hair follicle models, and the development of alternatives to animal testing remain among our primary R&D projects.

On the other hand, we have now ended our nine years of successful collaboration with SusTech in Darmstadt, Germany.

As a result of the integration of the National Starch businesses, we have been able to expand our core competences in the fields of polymer chemistry, material science and scientific computing, leading to a further strengthening of these important R&D areas within the organization.

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

- » Fungicidal sealants with improved resistance to aging
- » Development of innovative benzoxazine-based polymers as matrix resins for high-performance composites

- » Structural adhesives for various applications in the automotive and construction industries
- » Development of computation models to facilitate the formulation of new hair colorants
- » Development of innovative styling products in line with the latest market trends
- » Development of an innovative two-component dishwashing detergent offering consumers maximum freedom in dosage selection
- » Further development of enzymes to reduce laundry washing temperatures (e.g. Persil with Cold Power Formula from 20 degrees Celsius)

Driving forward sustainable development also constitutes one of the focal points of our research effort. Worthy of particular mention within this context are the following:

- » Development of non-hazardous products for safe handling by customers
- » Development of lead-free products for the electronics industry
- » Development of heavy-metal-free pre-treatment processes
- » Development of low-temperature cleaners
- » Development of innovative body care products based on renewable raw materials

Each year we select a number of our outstanding developments for our “Fritz Henkel Award for Innovation”. In 2008, this accolade went to three interdisciplinary project teams in recognition of their efforts in the realization and commercialization of the following concepts:

- » **Purex Natural Elements:** Exemplifying our Laundry & Home Care strategy “Performance Based on Sustainability” – in other words our commitment to provide outstanding product quality combined with the best possible degree of environmental compatibility (Quality & Responsibility) – this liquid detergent contains wash-active substances based exclusively on renewable raw materials and natural fragrance essences, and is also readily biodegradable. Purex Natural Elements was included as the first leading detergent brand within the “Design for the Environment” (DfE) program of the US Environmental Protection Agency (EPA). It also served as the initial concept and precursor

Major R&D Sites



paving the way to the introduction of our new brand Terra Activ in five product categories.

- » **Taft Power with Cashmere Touch:** The first styling line offering innovative performance to combine ultra-strong hold and cashmere-like suppleness. We have especially developed its unique formulations for dry and stressed hair. And the use of renewable raw materials substantially reduces its carbon footprint. This innovation has enabled Schwarzkopf to significantly underpin the market leadership enjoyed by Taft in Europe.
- » **Pattex Construction Adhesives – fixing without drilling, dust or noise:** While in the past it was necessary to use additional mechanical means in order to fix heavy or stressed components in assemblies, our new generation of construction adhesives with instant tack ensure that even these materials can be permanently secured without any such aids, and without slippage.

We currently have around 7,000 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 managed 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 merchandisers/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 and applies 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 consumers and the professional hair salon business. We begin by focusing on the needs and requirements of the consumer, with Marketing, Research and Development and also Packaging Development all working hand in hand in order to satisfy identified customer requirements.

In the hair salon business, we serve our customers via an established distribution system, or address them directly through the members of our dedicated field sales force. These also demonstrate product applications and provide technical advice at the local level.

We communicate with consumers primarily through media advertising and point-of-sale activities. However, the success of an innovation is based not only on acceptance among consumers but also on our ability to accommodate the requirements of the trade. Our relationships with our retail partners are internationally coordinated but managed and controlled at the national level.

Our *Adhesive Technologies* business sector serves all categories of clientèle from major multi-national corpora-

tions to small and medium-sized industrial companies and from professional craftsmen to private households and do-it-yourselfers.

For the most part, our customers are addressed individually and personally by our own sales force. Customers in this context are direct purchasers in the form of industrial companies, distributors or trade outlets. Supermarkets, DIY stores and specialty retailers are essential to the private user, while professional craftsmen tend to purchase from various types of specialty wholesaler. Due to our unique global position, we are able to support globally active customers such as automobile manufacturers or large retail chains effectively and comprehensively with key account management teams. As many of our products require explanations of a technical nature, our Technical Customer Services and the training of customer personnel in this field play an important role in the overall process. Our Technical Customer Services people have detailed knowledge both of the properties of our products and 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.

For us, communication with end users is also of central importance. While our marketing strategy is developed at the global or regional level, implementation of the measures takes place at the national and local level. In the case of the private consumer, we chiefly use 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. The internet is also becoming increasingly important as a platform for marketing and communication. Our websites contain not only information relating to our products and services but also order processing portals for our customers, including wholesalers, retailers and distributors. We utilize a combination of classic information brochure and website page in order to encourage interest among our industrial customers for our system solutions.

Sustainability/ Corporate Social Responsibility

Henkel is dedicated to sustainability and corporate social responsibility. 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 success.

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 expectations, 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. Henkel's constant endeavors to reconcile economic, ecological and social aims are a salient feature of our long corporate history.

At the center of our activities lies our vision which states: "Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful." From this we derive our corporate values and through them our commitment to sustainable development. We deliberately and systematically focus our activities throughout the entire value chain on the challenges of sustainable development. We have grouped these according to five focal areas: Energy and Climate, Water and Wastewater, Materials and Waste, Health and Safety, and Social Progress.

It is central to our commitment that all new products contribute to sustainable development in at least one of these areas. Therefore, we focus our efforts on those innovations combining product performance and quality with responsibility toward people and the environment. We endeavor to properly and effectively communicate the added value of these innovations to our customers and consumers. Our common focus and the credible implementation of our sustainability strategy in the marketplace serve to strengthen both our brands and the reputation of our organization, consolidating our market positions worldwide.

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

- » 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 2004 – 2008

Environmental indicators per ton of output

Energy consumption	-11 %	
Waste	-30 %	
Water consumption	-35 %	

Occupational accidents¹⁾

-63 %

¹⁾ Per million hours worked
Indicators and production volumes include National Starch businesses as from date of acquisition (April 2008)

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 not only help to mitigate the effect of rising energy prices but also – through the associated reduction of carbon dioxide emissions – make a contribution to achieving the climate protection targets of those countries in which Henkel operates. 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. In order to promote and actively assist in the development of sound and credible methods for determining the contributions made in this regard, we are participating in the "Product Carbon Footprint" pilot project with analyses of products from all three of our business sectors.

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 throughout the entire corporation 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 means of internal audits. In addition, Henkel companies have their management systems externally certified where this yields competitive advantage. At the end of 2008, 54 percent of our production volume was generated at sites certified in accordance with the worldwide environmental management standard ISO 14001.

As a responsible corporate citizen, Henkel provides financial and in-kind support for undertakings aligned to social need, 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 the vehicle of our MIT Initiative (Make an Impact on Tomorrow). In 2008, we supported a total of 1,306 charitable MIT projects in 76 countries, of which 336 were children-related.

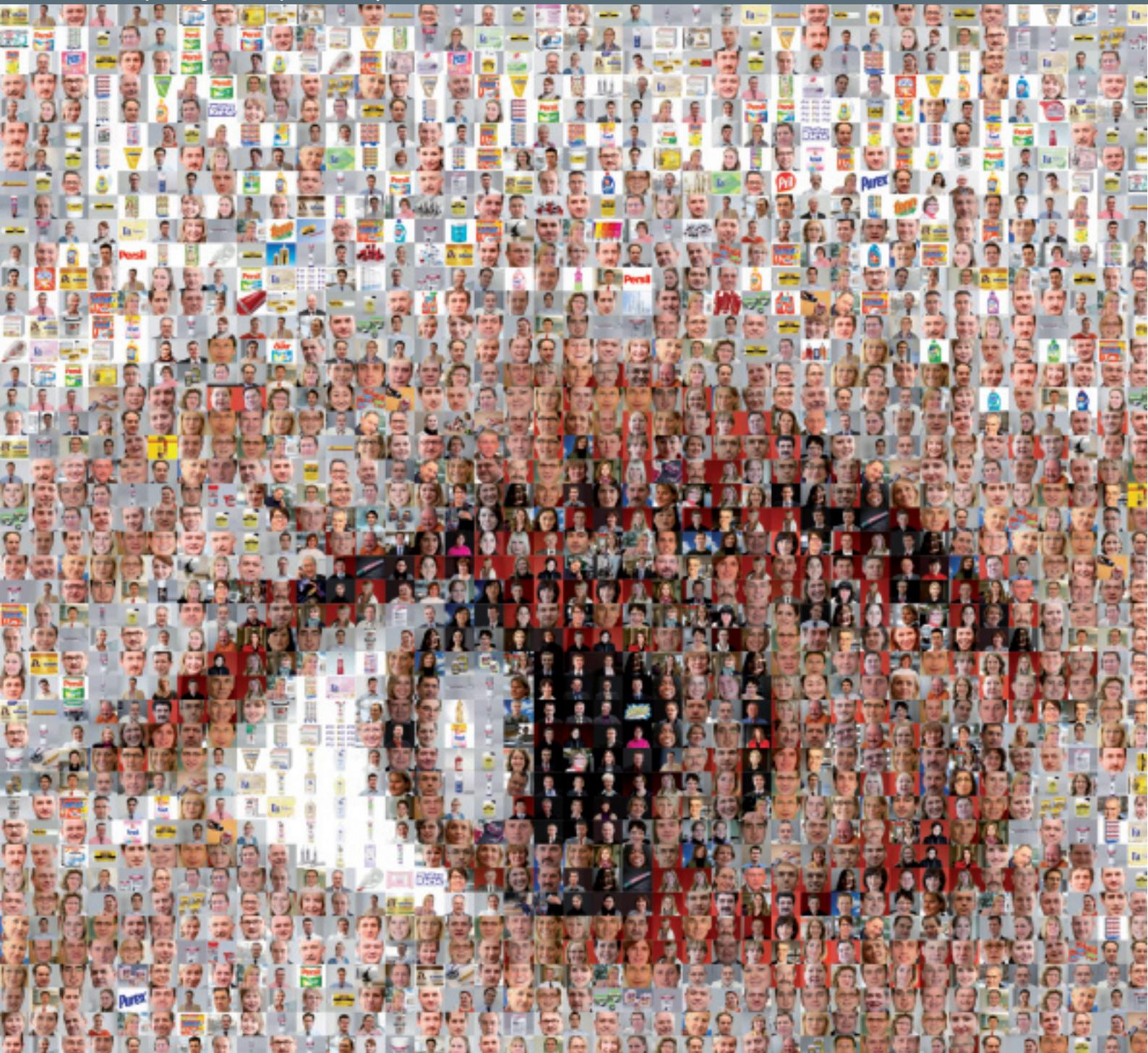
Our performance in relation to sustainability and corporate social responsibility was again recognized by external experts in the year under review and our accomplishments in this domain are reflected in various national and international sustainability ratings. For example, we are listed in the Dow Jones Sustainability World index and in the European Dow Jones Stoxx Sustainability index as a "sustainability leader" in the market sector "Nondurable Household Products". Our inclusion in the FTSE4Good has also been reconfirmed. In March, we received the top "ESG Award" (Environ-

mental, Social, Governance) – jointly conferred by the DVFA (German Association for Financial Analysis) and the business magazine Wirtschaftswoche – within the DAX Corporations category. In June, the Ethisphere Institute and Forbes business magazine included Henkel in their ranking of the "World's Most Ethical Companies". And in December, Henkel was presented the first ever "German Sustainability Award" in the category "Most Sustainable Brand".

Viable solutions for sustainability can only be developed through consultation and collaboration with all social groups. In order to be able to take into consideration and evaluate the interests of these different communities, we constantly seek dialog with stakeholders at the local, regional and international level. These include our employees, shareholders, customers, suppliers, public authorities, trade associations and non-governmental organizations, as well as representatives of the sciences, academia and the general public.

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 can be found in our  *Sustainability Report*. With this, we document the high priority assigned to the principles of sustainable development by our corporation, 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



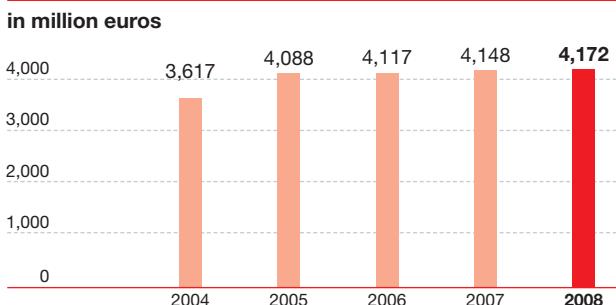
Driving Change



It is becoming increasingly important for us at Laundry & Home Care to focus on our customer relationships as key factors for success. We are aware that competent and motivated employees are our greatest asset – and not just with respect to those customer relationships but in all the other functions too. Continuous investment in their training and further development coupled with careful selection and promotion of our managers of the future therefore count among the primary areas on which we intend to concentrate. With this platform, we are confident of being able to achieve even more of our business potential with our strong brands and proven innovative strengths.

Laundry & Home Care

Sales



Key Financials¹⁾

in million euros	2007	2008	+/-
Sales	4,148	4,172	0.6 %
Proportion of Henkel sales	32 %	30 %	-2 pp
Operating profit (EBIT)	459	439	-4.2 %
Return on sales (EBIT)	11.1 %	10.5 %	-0.6 pp
Return on capital employed (ROCE)	16.7 %	16.9 %	0.2 pp
EVA®	183	166	-9.6 %

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

pp = percentage points

- » Organic sales growth of 3.8 percent
- » Operating profit of 439 million euros
- » EBIT margin of 10.5 percent
- » ROCE increased to 16.9 percent

Economic Environment and Market Position

The volume of the market for laundry and home care products in 2008 was estimated at around 85 billion euros. The markets of relevance to Henkel grew by around 3.5 percent compared to the previous year. Market expansion was driven both by increasing volumes and a rise in the average price level. The latter is due to price increases in all regions implemented by manufacturers and the trade as a response to the considerable increases in raw material and energy prices.

The situation in Western Europe is characterized by a generally stable market for laundry and home care products. However, the necessary price rises and the increasing price sensitivity of consumers observed in the course of the economic downturn contributed to further growth in the market share accounted for by private label products. Against this background, we were however able to maintain our leading market position.

The Eastern European market once again underwent double-digit percentage growth in the year under re-

view, continuing its dynamic development. Growth in the markets for special detergents and machine dish-washing products was especially strong with our brands Perwoll and Somat particularly benefiting. We were able to expand our strong number two position in the laundry and home care market within this region, at the same time further reducing the gap to our biggest competitor.

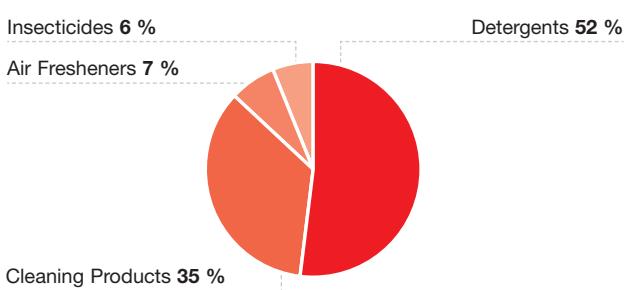
Most of our markets in Africa/Middle East, Latin America and Asia posted double-digit growth in 2008. And thanks to our own strong expansion, we were able to further consolidate our market positions in these important growth regions.

Developments on the North American laundry and home care market were mixed: while sales in detergents and air fresheners increased due to higher volumes, sales in cleaning products declined slightly. We were able to consolidate our market position with our laundry brand Purex and succeeded in positioning ourselves well within an environment of increasing price competition.

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 market. The Laundry segment

World Market for Laundry & Home Care Products



Sales Development¹⁾

	2008
Change versus previous year	0.6 %
Foreign exchange	-2.4 %
After adjusting for foreign exchange	3.0 %
Acquisitions/divestments	-0.8 %
Organic	3.8 %

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

includes not only heavy-duty and special detergents but also fabric softeners, laundry performance enhancers and laundry care products. The product portfolio of our Home Care segment includes cleaners for bath and WC applications together with household, glass and specialty cleaners. We also manufacture hand and machine dish-washing 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 to expand our world market positions from our strong platform in Europe and North America, to harness the dynamic expansion in sales taking place in our growth regions, and to further improve our profitability.

Successful innovations will remain important contributors to profitable growth going forward. We continue to place great importance on quickly identifying consumer trends, harnessing these and converting them into viable products. We also regularly review our existing product portfolio and respond to changing consumer requirements by appropriately adapting our product range. We will continue to use our successful and proven brand concepts in the modification of existing products for different countries.

Sales and Profits

We nominally increased sales by 0.6 percent to 4,172 million euros in the year under review, despite the negative effects of foreign exchange. Organic growth came in at an encouraging 3.8 percent, outpacing the rate of expansion of our markets. The improvement in organic sales was primarily price-driven, illustrating the success of the measures implemented in this respect. Indeed, we managed to increase organic sales in all our regions, although a large proportion of this growth was attributable to the Europe/Africa/Middle East zone. With double-digit growth rates achieved in some countries of Eastern Europe, we were able to disproportionately participate in the dynamic expansion of those markets.

By contrast, we were unable to repeat the sales figure of the previous year for Western Europe. Aside from the

high prior-year base generated by our pan-European “Best Ever” campaign and Persil’s brand centennial, this decline was also due to the price increases implemented.

We registered our highest organic growth rates in Africa and the Middle East. Leveraging our leading market positions, we continued to develop very positively in important countries of this region.

We were also able to increase organic sales in the growth regions of Latin America and Asia, passing on the significant rise in input costs through price increases of our own.

Our business in North America likewise contributed to the organic sales growth achieved, benefiting from a favorable positioning of Purex in the medium price segment and boosted by the performance of our air fresheners.

Until well into the second half of the year, the steep rise in raw material and energy prices burdened our profits to an extent never before experienced. However, with the aid of a number of global measures to reduce cost and enhance efficiency, and through price increases of our own, we were able to largely compensate for this negative effect. Nevertheless, operating profit (EBIT) fell in comparison to the previous year by 4.2 percent to 439 million euros, and by 2 percent after adjusting for foreign exchange. Included in this figure are expenses of 14 million euros previously attributable to the former Corporate Research division. Due to the decline in profits, return on sales decreased by 0.6 percentage points to 10.5 percent. After adjusting for the reassigned research and development costs, return on sales was 10.9 percent. Return on capital employed (ROCE) amounted to 16.9 percent, an increase of 0.2 percentage points compared to the previous year.

Business Segments

In the *Laundry* business segment, the strongest boost to growth in the year under review came from our heavy-duty detergents and fabric softeners. Our largest brand Persil made a particularly good contribution to the improvement in sales generated by our heavy-duty detergents, with high growth rates achieved especially

in Eastern Europe and Africa/Middle East. We further improved our premium Western European detergent brands Persil, Dixan, Le Chat and Wipp with a high-performance active stain remover offering even better cleanliness at just 20 degrees Celsius. This enables consumers to both save energy and help protect the environment. Sales of our fabric softeners increased primarily in the European markets and in North America. Our successful European brands Vernel and Silan benefited both from the rollout of existing fragrance variants to further European countries and from product innovations such as new Vernel Crystal, which is added to the wash as a fine crystal powder. In North America too, a product innovation helped underpin sales growth: with the introduction of the fabric softener Purex Natural Elements, we were able to add to the success of our environmentally compatible heavy-duty detergent, increasing our market share in the fabric softener category.

The main contributors to organic sales growth in the *Home Care* business segment were our dishwashing detergents and WC products. While sales in machine dishwashing products increased primarily in Europe, hand dishwashing product sales especially rose in the Africa/Middle East region with our well-known brand Pril achieving double-digit percentage growth rates in a number of important countries there. In the case of our WC products, our highest rates of growth were again achieved in Eastern Europe. Overall, our rate of growth here outstripped that of the market as a whole, resulting in an increase in our market share. In the fourth quarter, we launched a series of household cleaners onto the German and Swiss home care markets under the new brand Terra Activ. While ensuring gleaming cleanliness in the household, this range also contributes to conserving nature's finite resources – such as oil – through the use of ingredients based predominantly on renewable raw materials.

Capital Expenditures

Our investments in the year under review were primarily geared to adapting our liquid and powder detergent production capacities to prevailing market conditions.

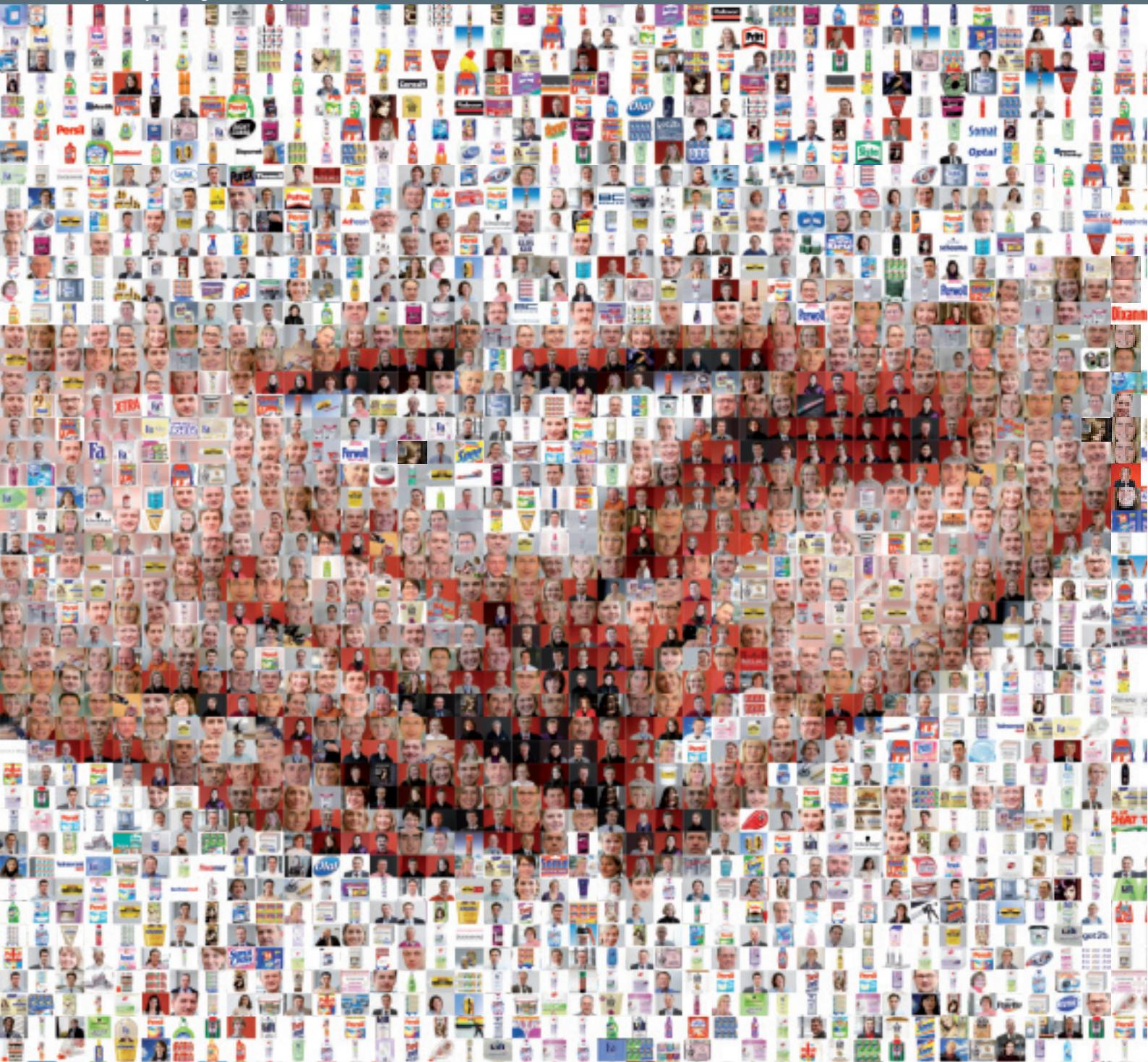
We also invested in optimizing and harmonizing product packaging and expanded office space capacity in certain locations. In all, we invested 163 million euros in property, plant and equipment compared to 168 million euros in the previous year.

Outlook

We expect our markets to exhibit a decline in their growth dynamics in 2009 due to the slowdown in economic development. However, the extent of that decline is difficult to forecast. We anticipate that our markets in North America and Eastern Europe will be particularly affected by the deterioration in the overall economic climate.

Within this environment, we intend to expand our market positions in 2009 and to once again outperform our markets. Implemented cost-reducing measures, particularly those relating to the "Global Excellence" restructuring program, will support the development of our operating profit.

We see opportunities arising from the cost situation due to the decrease in material prices. There are risks associated with the implementation of price increases for our products and – particularly in the growth regions – in the form of credit exposure arising from the declining financial strength of our trade customers.



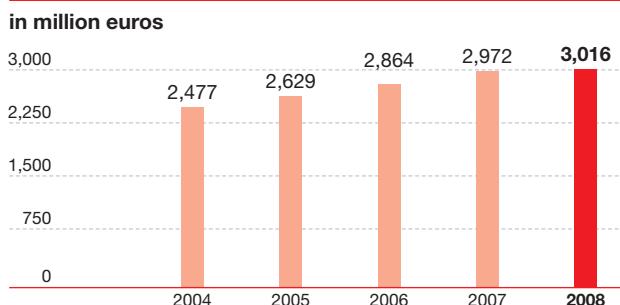
Driving Change



A strong, highly motivated and well qualified global team is key to our success at Cosmetics/Toiletries in attaining the targets that we have set ourselves. Our main priority is to generate further profitable growth so that we can better achieve our full business potential. Consequently, people management and talent development are also at the focus of our activities. Capable employees enable us to meet the requirements of our consumers and retail partners with successful innovations.

Cosmetics/Toiletries

Sales

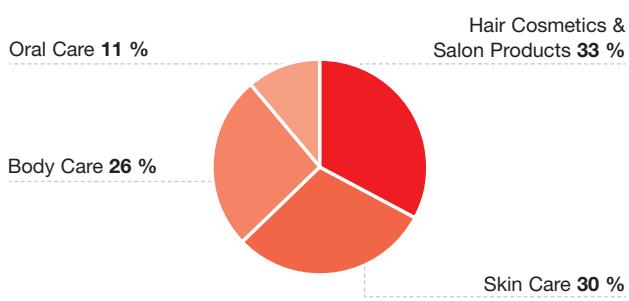


- » **Organic sales growth of 4.7 percent**
- » **Operating profit increased to 376 million euros**
- » **EBIT margin of 12.5 percent**
- » **ROCE increased to 17.5 percent**

Economic Environment and Market Position

Our cosmetics market was valued at some 135 billion euros in 2008, an increase of around 2 percent versus the previous year. While growth in the regions of Western Europe and North America, in which we generate around two thirds of our sales, was well below this rate, here we succeeded in outpacing the market. Supported by the positive developments in our hair cosmetics business, we were able to significantly expand our positions in Western Europe, gaining market share in the process. In North America, we significantly improved our position in the body care segment. We were likewise once again able to outstrip the strong economic growth encountered in Eastern Europe and the Middle East. We enjoyed disproportionate growth in the Asia-Pacific region despite stagnation in our core markets of Japan and Australia. In Latin America too, we outpaced market growth with our selective regional presence.

World Market for Cosmetics/Toiletries



Key Financials¹⁾

in million euros	2007	2008	+/-
Sales	2,972	3,016	1.5 %
Proportion of Henkel sales	23 %	21 %	-2 pp
Operating profit (EBIT)	372	376	0.9 %
Return on sales (EBIT)	12.5 %	12.5 %	0 pp
Return on capital employed (ROCE)	16.7 %	17.5 %	0.8 pp
EVA®	149	150	0.7 %

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

pp = percentage points

Developments in the international hair salon sector were sluggish. The primary growth drivers here were again Eastern Europe and Latin America. As a globally aligned, innovative salon specialist, Schwarzkopf Professional enjoyed above-average participation in market development, further extending its position as number 3 in the world.

The Cosmetics/Toiletries business sector holds leading positions in the markets of relevance to us around the world.

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 intention is to further grow the branded consumer goods business with the emphasis on developing our strong market positions in Europe and North America, expanding our activities in Eastern Europe and driving forward our selectively focused operations in Asia and Latin America. We will also be resolutely pursuing the globalization strategy of our hair salon business.

We intend to achieve growth primarily through the organic expansion of our businesses, and especially

Sales Development¹⁾

	2008
Change versus previous year	1.5 %
Foreign exchange	-2.7 %
After adjusting for foreign exchange	4.2 %
Acquisitions/divestments	-0.5 %
Organic	4.7 %

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

through the development and speedy launch of innovative products. We will nevertheless continue to consider appropriate acquisitions to supplement our organic growth strategy in both our branded consumer goods and our hair salon business.

As proponents of the proactive portfolio management approach, we also regularly scrutinize our businesses, disposing of non-strategic marginal activities as appropriate. 2008 therefore saw us part with brands in the USA and the UK which were considered to no longer be compatible with our core.

In our branded consumer goods business, we are focusing on the international expansion of our core businesses of hair cosmetics, body care, oral care and skin care. The emphasis in our hair cosmetics strategy is on further developing our leading umbrella brand Schwarzkopf and driving consumer-led innovation in the key product categories of colorants, hair care and styling. In our body care business, we intend to continue building on the momentum generated by the latest market successes achieved in Europe through our innovation offensive; in North America we are concentrating on the expansion of our core brand Dial and our Right Guard brands portfolio. In growing our successful skin care brand Diadermine, we will be concentrating on Europe, as we will in the further development of our oral care business. Our hair salon business, currently the number three in the world, is to be further strengthened with product innovations. Here, we also want to develop new regional potential on a selective basis. Our strategy of expanding and further strengthening our core businesses and key competences is aligned to the objective of achieving further, continuous improvements in profitability.

Sales and Profits

With organic sales rising by 4.7 percent, the Cosmetics/Toiletries business sector achieved expansion well above the growth rate of our markets. In nominal terms, sales increased by 1.5 percent to 3,016 million euros, despite the removal of marginal activities from our portfolio and negative foreign exchange impact. We once again succeeded in generating significant double-digit organic growth in the emerging markets, both with respect to our branded consumer goods business and in the hair salon segment.

We increased operating profit (EBIT) to 376 million euros. After adjusting for foreign exchange, operating profit was 4.1 percent above the prior-year figure, despite containing 7 million euros in expenses relating to the former Corporate Research division. Without this exceptional item, we increased return on sales by 0.2 percentage points to 12.7 percent. These encouraging results are due primarily to systematic cost saving measures, a substantial reduction in portfolio complexity, and successful innovations.

Return on capital employed (ROCE) increased by a further 0.8 percentage points to 17.5 percent. This is primarily attributable to a strict approach in reducing our net working capital.

Business Segments

Our highly successful *Hair Cosmetics* segment once again raised its market shares to new record levels with all three core businesses posting their best ever results.

Our colorants business was characterized by numerous innovations. The launch of our Coloriste brand, which provides natural, intensive high-gloss colors in just ten minutes, was an outstanding success. And the relaunch of the Brilliance brand – the first colorant offering ten-carat diamond glossiness – added further impetus to results.

The substantial growth in sales of our Palette brand was driven by a number of new developments. Among others, the Palette Permanent Natural series met with great consumer response. And the new color mix technology of our Natural and Easy brand offering natural care and striking hair coloration also contributed to the gratifying results achieved.

In the hair care business, our two core brands Gliss Kur and Schauma performed very well. Gliss Kur was able to further extend its leading position in the core segment of intensive care with the launch of our innovative Cell Repair technology. The comprehensive relaunch of the Schauma brand in our core markets contributed to a substantial increase in sales and business value.

Within the category served by our styling segment, our Taft brand is the clear market leader in Europe. Taft Power and Power with Cashmere Touch, the first line for dry and damaged hair, both performed very well within this business, while the trend-setting styling brand Göt2b

made a significant impact with a range of new lines such as Göt2b magnetik.

Our *Body Care* business performed well, due in part to achievements under our Fa brand with the innovative series Fa Rice Dry – the first deodorant with rice extract – augmented by the relaunch of the highly popular Fa Yogurt range. Growth was also supported by the expansion of our Natural series.

We have been driving forward our Dial brand business with the introduction of various new lines and the launch of the first body wash series in the USA to feature yogurt proteins, expanding market share in the process. The new, natural body care brand Pure & Natural has also made a very good start. In the deodorant segment, we launched our high-performance Professional Strength series under Right Guard and the Clinical range under Dry Idea.

The biggest contribution to the *Skin Care* business was made by the Diadermine brand with an extension to its Age ExCellium premium line, and the addition to its Lift+ line of the preventative anti-wrinkle cream Lift+ Anti-Oxidants.

The good results generated in the growing *Oral Care* business were again achieved on the basis of our core Theramed brand. This reporting period saw the introduction of Theramed 2in1 OxiWhite for exceptional teeth whiteness and fresh breath.

In the *Hair Salon* business, Schwarzkopf Professional was able to expand its worldwide market position by once again posting strong growth. Much of our success was due to innovations adding further impetus to the market. In the coloration segment, for example, we introduced Igora Absolutes, the first high-fashion range of colorants offering 100 percent gray coverage. The further rollout of the Blond Me brand extended its run of success, and with Color Save and Sensitive under the Bonacure brand in the care segment, we were able to offer the first care series for long-lasting color protection and sensitive scalps respectively. We launched a new brand in the fourth quarter in the form of Essensity. In all the care, styling and coloration products in this line, we have essentially replaced the synthetic ingredients with natural components. The Essensity range is the first to offer a successful combination of product performance and natural ingredients in each of these three categories.

Capital Expenditures

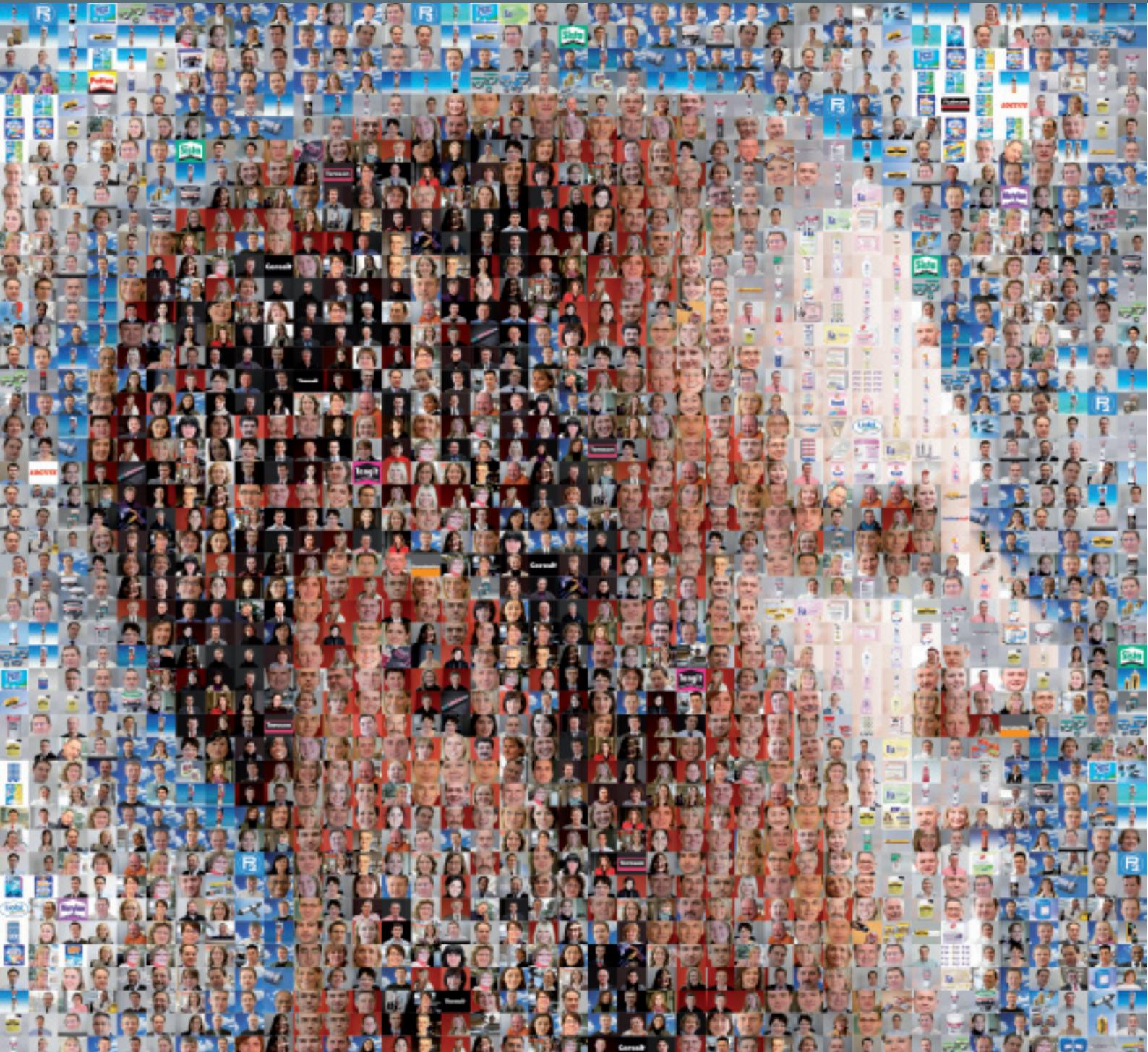
At the core of the “Global Excellence” program are measures for optimizing our structures and processes. The actions taken are making a significant contribution to partially offsetting the rapid rise in raw material, packaging and energy prices. Total expenditures on property, plant and equipment amounted to 84 million euros in 2008 compared to 69 million euros in the previous year.

Outlook

Given the adversity of the current economic climate, we expect 2009 to bring a decline in the growth dynamics exhibited by the cosmetics/toiletry markets of relevance to us.

Within this environment, we intend to once again outperform our markets in 2009. Implemented cost-reducing measures, particularly those relating to the “Global Excellence” restructuring program will support the development of our operating profit.

We see opportunities arising from the further development of our Schwarzkopf megabrand and in the resolute pursuit of our ongoing innovation offensive. We see risks arising from a further increase in competition within our already highly combative markets, particularly in Western Europe and North America. Additional risks may arise from the impact of the global recession on consumer demand for cosmetics and toiletries.



Driving Change

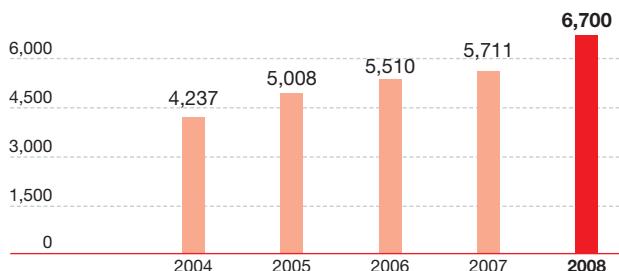


Adhesive Technologies is a world leader in its field, offering global presence, a broad technological base, strong brands and experienced employees. We intend to achieve our full business potential by resolutely utilizing the opportunities that exist for growth. To this end, we are working on further extending and deepening our already close customer relationships, because collaboration with leading customers generates innovations capable of changing and expanding the market. At the same time, we are investing around the world in consolidating the foundation for our success, namely the skills and capabilities of our employees and the efficiency of our processes.

Adhesive Technologies

Sales

in million euros

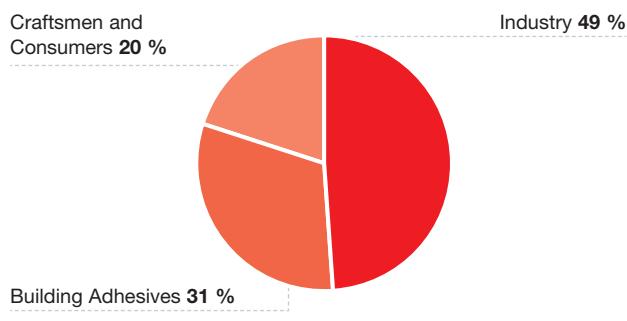


- » Acquisition of the National Starch businesses successfully closed on April 3, 2008
- » Organic sales growth of 1.3 percent
- » Operating profit increased to 658 million euros
- » EBIT margin of 9.8 percent
- » Market-related downturn in the fourth quarter

Economic Environment and Market Position

Our market for adhesives, sealants and surface treatment products in 2008 amounted to around 48 billion euros. In the course of the last few years, this global sector has consistently grown by between 3 and 4 percent a year; however, in the second half of 2008, we observed a growth slowdown in the wake of the global financial and economic crisis. Developments in the individual market segments and regions were once again mixed. The emerging markets continued to register significantly above-average growth rates in which we also participated thanks to our strong position in these regions. However,

World Market for Adhesives, Sealants and Surface Treatment Products



Key Financials¹⁾

in million euros	2007	2008	+/-
Sales	5,711	6,700	17.3 %
Proportion of Henkel sales	43 %	47 %	4 pp
Operating profit (EBIT)	621	658	6.0 %
Return on sales (EBIT)	10.9 %	9.8 %	-1.1 pp
Return on capital employed (ROCE)	16.9 %	10.0 %	-6.9 pp
EVA®	253	-132	-152 %

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

pp = percentage points

here too market growth flattened toward the end of the year, and by the fourth quarter every region was suffering the effects of the downturn.

Certain long-term megatrends are, however, expected to continue to support the growth of the adhesives markets going forward. Increasing consumption in the emerging economies is leading to higher adhesive usage; and the ongoing need for energy efficiency and carbon dioxide reduction is adding growth impetus to our markets. For example, the increased use of lightweight construction materials and also thermal insulation measures in buildings makes the employment of modern adhesive systems increasingly necessary.

The unique breadth of our product portfolio, now further strengthened through the acquisition of the National Starch businesses, has given us leading positions on both the global scale and also in our separate regions. And having once again generated organic growth above the market average in 2008, we have succeeded in further expanding our market shares.

Sales Development¹⁾

	2008
Change versus previous year	17.3 %
Foreign exchange	-4.8 %
After adjusting for foreign exchange	22.1 %
Acquisitions/divestments	20.8 %
Organic	1.3 %

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

Business Activity and Strategy

The Adhesive Technologies business sector serves a wide range of user groups with a comprehensive range of technologies comprising adhesives, sealants and surface treatment products.

In the *Adhesives for Craftsmen and Consumers* business, we serve private households, schools, offices, do-it-yourselfers and professional tradespeople. We offer a wide range of adhesives and sealants for refurbishment and home construction applications, including our Pattex power adhesives, Sista sealants and Metylan home decoration products. For applications in home, school and office, we offer adhesives under our international Loctite and Pattex brands, also glue and correction products under the Pritt brand.

In the *Building Adhesives* business, we focus on products and system solutions for professional craftsmen working in construction-related trades. These include tiling, humidity protection and thermal insulation products, distributed under the Ceresit brand. Flooring adhesive systems are marketed internationally under the well-known Thomsit brand.

Our business involving industrial customers from a wide range of different sectors is divided into three strategic business units.

Our *Packaging, Consumer Goods and Construction Adhesives* business has been permanently strengthened by the acquisition of the National Starch operations. Here, our customers can rely not only on our Technomelt adhesives but also hotmelt adhesives under the Dispomelt brand taken over from National Starch. We also offer high-performance laminating adhesives for the manufacture of composite films for food packaging under the Liofol brand. Our brands Adhesin for the paper industry and Dorus for the woodworking industry likewise offer the twin benefits of quality and outstanding product properties.

Our product portfolio in the *Specialty Adhesives and Surface Treatment* business encompasses our Loctite range for industrial maintenance, repair and overhaul, our Teroson sealants and also, for example, our industrial cleaners under the P3 brand. Our customers are manufacturers from a wide range of segments including the automotive, aircraft and household appliance industries. In the metal fabrication and processing field, we were

able to expand our product range through the addition of the high-performance lubricants under the Acheson brand acquired with the National Starch businesses.

Our *Electronics* business has also been significantly strengthened and expanded through the merging of the Henkel and National Starch operations. Our customers from the electronics industry use our range of high-tech adhesives under the brands Hysol and Ablestik and also soldering pastes from Multicore in the manufacture of microchips and printed circuit boards.

The Adhesive Technologies business sector serves a broad range of different customer groups and industries around the world. Since we have at our disposal a wide technology portfolio, we can offer a tailored selection of services capable of creating optimized customer benefits. Our high level of diversification enables us both to participate immediately in new growth trends and to compensate for any downturns in activity encountered in individual markets. This provides us with a good basis for sustainable and stable growth.

The factors governing the success of the various operations that make up the business sector differ substantially, necessitating a diverse range of management and control instruments and strategies.

In the case of branded products for private consumers 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 case of our industrial customers, we distinguish between two major categories of business. In our volume operations (involving, for example, packaging adhesives), our primary aim is to further increase profitability through the effective use of economies of scale and strict cost management. As a leading supplier in the relevant segments, Henkel has a very good platform to work from. With respect to our specialty product businesses for industrial applications (for example, products for the electronics industry), the focus is on providing customer-specific solutions backed up by appropriate support and advisory services. Our many years of close contact with our customers, and our detailed knowledge of their requirements provide us with a viable basis for sustainable business success in this regard.

We intend to further expand our strong positions in the regions of Eastern Europe, Asia, Latin America and Africa/Middle East in order to harness even more effectively the dynamics of these growth regions, and to selectively fill identified white spots in our regional structure. The acquisition of the National Starch businesses has substantially strengthened our position, particularly in Asia, and successful business models are now being transferred between the growth regions.

As part of our proactive portfolio management approach, we regularly scrutinize our businesses with the specific view of divesting any non-strategic marginal activities. In January 2008, for example, we sold our industrial water treatment business to BK Giulini, Ludwigshafen, a subsidiary of Israel Chemicals Limited (ICL).

We endeavor to maintain high innovation rates while gaining and retaining innovation leadership in all our business segments in order to achieve sustainable, profitable sales growth. Innovations serve to distinguish us from our competition and to increase our earning power. Identifying individual user requirements provides us with a solid basis for the development of new, market-aligned problem solutions. For this reason, forging close contacts with our customers at all levels of our organizations is one of our particular priorities. With reallocation of the Group's Corporate Research activities, we have expanded the development capacities of all Henkel's business sectors in order to enhance our ability to develop solutions focused on market and customer demands.

Following the rapid acquisition-led expansion of our business over the last few years, our priority going forward will be on achieving profitable organic growth. In order to achieve this, we intend to fully utilize the improvement in our position as a supplier in the various market segments and to fully utilize the synergies that derive from the acquisition of the National Starch businesses.

Sales and Profits

In the year under review, the Adhesive Technologies business sector increased sales by 17.3 percent to 6,700 million euros. This rise is primarily attributable to the acquisition of the National Starch businesses. After adjusting for foreign exchange and acquisitions and divestments,

organic growth amounted to 1.3 percent. Posting double-digit percentage increases, our growth regions of Eastern Europe, Africa/Middle East, Latin America and Asia once again performed very well. Due to the rapidly deteriorating conditions encountered in the mature markets of Western Europe and North America, sales in these regions were below the prior-year levels.

Operating profit improved by 6.0 percent to 658 million euros. After adjusting for foreign exchange, profit growth came in at 10.8 percent. Included in this figure are charges of 36 million euros relating to the integration of the National Starch businesses and also costs incurred by the former Corporate Research division of 10 million euros. We were confronted in the course of the year with a substantial rise in average raw material prices. Despite implementing price increases of our own and modifying our formulations, we were unable to fully offset the ensuing increase in costs. Declining markets in Europe and North America also had a negative effect on our profitability. As a consequence, return on sales decreased by 1.1 percentage points to 9.8 percent. After adjusting for the reassigned research and development costs, return on sales was 10.0 percent.

Return on capital employed (ROCE) decreased by 6.9 percentage points to 10.0 percent, primarily as a result of the acquisition of the National Starch businesses.

Business Segments

In the *Adhesives for Craftsmen and Consumers* business, we once again posted a slight increase in sales despite the difficult conditions prevailing in major craftsmen markets within Western Europe, and despite the real estate crisis in North America. This success was due to good performance in the regions of Eastern Europe and Latin America. While demand for paper glues and correction products weakened slightly, our bonding adhesives under the Pattex brand and the launch of a number of innovations in the Loctite instant adhesives range contributed to growth. We were able in particular to profitably expand our business with the introduction of Loctite Flex Gel.

The growth of our *Building Adhesives* business continued unabated. With substantial double-digit rates of expansion, the biggest boost came from Eastern Europe and Africa/Middle East. The market in Western Europe,

on the other hand, continued to decline. Aside from tile adhesives, our product systems for thermal insulation in buildings again exhibited dynamic growth.

The *Packaging, Consumer Goods and Construction Adhesives* business was significantly strengthened as a result of the acquisition of the National Starch operations. However, even without this influence, we were able to increase sales compared to the previous year. In particular, we generated expansion through both our Liofol adhesives for flexible packaging and our adhesives for consumer goods, with our innovative hotmelts under the Technomelt Supra brand adding further momentum. However, our operations involving the graphic arts industry and the paper-converting sector performed less well.

Our *Specialty Adhesives and Surface Treatment* business also showed mixed developments with the overall results slightly below those of the previous year due to prevailing market conditions. As expected, there was a decline in our automotive business and also – due to a prevailing reluctance to invest – in our operations serving manufacturers of durable consumer goods. We selectively combated these developments with the launch of new products such as TecTalis, an innovative metal pre-treatment product. Our business with products for industrial maintenance, repair and overhaul under the Loctite brand again underwent expansion in 2008. As a result of the acquisition of the National Starch businesses, we were able to substantially expand our market position with respect to the metals industry, with Eastern Europe and Asia-Pacific exhibiting particularly strong growth.

The *Electronics* business likewise benefited substantially from the merger with the National Starch operations. Consumer reluctance to purchase new electronic products had an adverse effect on the sector as a whole, resulting in our business volumes easing somewhat overall, despite the encouraging performance of products used in the assembly of printed circuit boards.

Capital Expenditures

2008 saw a continuation of our investment strategy from the previous years, which is geared toward the expansion of our Eastern European sites manufacturing building adhesives. We also further expanded our production

capacity in the growth markets of Asia. We are additionally supporting the integration of the National Starch businesses around the world with appropriate capital expenditure measures. In fiscal 2008, this resulted in an increase in our capital expenditures on property, plant and equipment to 201 million euros, compared to 197 million euros in the previous year.

Outlook

Due to the extraordinary nature of the current economic climate, market development forecasts have become difficult. Given the – in some cases – substantial decline undergone by important market segments toward the end of 2008, we anticipate that the market as a whole will contract in 2009. Performance in the growth regions is likely to be better than that exhibited in the mature markets. In the case of Europe and North America, our current expectation is for the persistence of the difficult situation affecting a number of important market segments.

Overall, we expect prices for raw materials and packaging to decrease.

Our objective in 2009 is again to outperform our markets. The synergies arising from the integration of the National Starch businesses and the improvements in our cost structure brought about by the economies implemented in 2008 as part of the “Global Excellence” program will support the development of our operating profit.

We see opportunities arising primarily in the further substitution of conventional mechanical fastening and joining techniques by adhesive bonding systems, and in positive market dynamics in the growth regions. Additional opportunities are likely to arise as we harness the growth momentum emanating from the acquisition of the National Starch businesses. We envisage risks arising primarily from a further deterioration in the underlying economic conditions, which may also result in individual customers and suppliers ceasing business.

Risk Report

Opportunity and Risk Management System

At Henkel, the **risk management system** is an integral component of the comprehensive planning, control and reporting regime practiced in the individual companies, in our business sectors and at corporate level. The principles, processes and responsibilities relating to risk management are defined in a corporate standard that is binding throughout the Group. The implemented regulations and systems are the subject of regular external and internal checks and audits. The findings of such activities 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 all opportunities and risks identified as likely to affect our businesses. We understand risk as being a negative deviation from a financial target or KPI resulting from an event or change in circumstances. As opportunity and risk are essentially the two sides of entrepreneurial endeavor, opportunities generally arise from a complementary view of the risk structure. Consequently, we are able both to minimize potential exposure at an early stage and effectively exploit identified opportunities.

The additional **risk reporting process**, performed annually, begins with identifying 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). The results are evaluated in a two-stage process according to occurrence likelihood and potential loss. The material limit applied is risk of a potential loss upward of one million euros. We initially determine the gross risk and then, in a second stage, the net risk after taking into account our countermeasures. Initially, risks are recorded on a decentralized basis by our affiliated companies, coordinated by our regional officers. The locally collated risks are then examined by the experts in the business sectors and corporate functions, discussed in the appropriate management committees and finally assigned to a segment-specific risk inventory. Opportunities are registered and assessed in a similar manner. Corporate

Controlling is responsible for coordinating the overall process and also the aggregation and analysis of the inventorized risks and opportunities. All the opportunity and risk management procedures are supported by an intranet-resident database to ensure transparent communication throughout the entire corporation. Within the framework of their 2008 audit of the financial statements, the auditors examined the structure and function of our opportunity and risk management system, confirming its adequacy and regulatory compliance.

Risk Management System



Disclosure of Major Individual Risks

The following explains in more detail the individual risks identified within the main risk categories incorporated in the risk inventory. Relevant opportunities are described in the “Outlook for the Henkel Group” section on [AR page 71](#) and in the individual business sector summaries starting on [AR page 54](#).

Economic and sector-specific risks: We see an increasing threat to sales volumes and revenues arising from the recession in North America and Europe. Moreover, weakening market growth in both the consumer goods and the industrial segments coupled with increasing competition continue to give rise to risk (for an appraisal of the underlying economic conditions, please see [AR page 71](#) under “Outlook for the Henkel Group”). Here we are currently observing a process of consolidation within the retail trade, resulting in increased pressure with respect to both prices and terms of business. We are therefore focusing on achieving a continual increase in our brand value and are committed to 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: Despite the easing of the raw material markets in the fourth quarter of 2008, we see risks arising on the procurement side from unforeseen price rises with respect to important raw materials and packaging resources, and generally anticipate a continuing high level of raw material price volatility. We are combating such risks through the proactive management of our vendor portfolio and the establishment of a 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 primarily from the occurrence of capacity bottlenecks and also the possibility of operational interruptions, especially at 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. These 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 2008 – for example in the form of hacking, spamming or viruses – were successfully repelled by the security measures implemented and therefore had no disruptive effect on our business processes. Moreover, Henkel has put in place a globally binding internal IT guideline to which our external service-providers are also bound. Major components of this code include measures for avoiding risk, and descriptions of escalation processes and best-practice technologies. Correct implementation is continuously monitored by our globally active Internal Audit function. In addition, our safeguards are examined for their efficacy and efficiency by external specialists.

Personnel risks: The future economic development of Henkel is essentially dependent upon the commitment and capabilities of our employees. We respond to the increasing competition for well-qualified technical and managerial staff by maintaining close contacts with selected universities and 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: Under the influence of the general economic environment, Henkel is exposed not only to currency, interest rate and pension risks but also and increasingly to the risk of incurring bad debts.

Due to the strained financial situation in the automotive industry particularly – including its components suppliers – our **credit risk** has risen compared to previous years. 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 payment default insurance policies. Aside from meticulous local vigilance, we also monitor our key customer relationships at the global level. Default and credit risks also arise in the case of financial investments such as cash at bank and the positive fair value of derivatives. However, such exposure is 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 111.**

Risks arising from pension obligations relate to changes in interest rates, inflation rates, trends in wages and salaries, and changes in the statistical life expectancy of pension beneficiaries. The risks associated with our pension funds are constantly monitored and managed on the basis of risk and return criteria. Such risks are controlled as far as possible by structuring pension fund assets to match our pension obligations. Major pension funds are administered by external fund managers in Germany, the USA, the UK, Ireland and the Netherlands. The funds covering our pension obligations have been invested on the basis of asset-liability studies. The investments in Germany are structured such that the risks arising from interest rate changes affecting the level of pension liabilities are reduced by the expected return on the interest-bearing assets. In the event of adverse movements in the stock markets, the investments made in shares and funds negatively affect the performance of the pension assets. This risk is countered by ensuring the wide diversification of our investment portfolio. Risks in this respect are quantified using sensitivity analyses. Further information on the evaluation and management of risks arising from our pension obligations can be found in **AR Note 28 starting on page 101.**

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 also 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 financial receivables and financial liabilities are hedged in full. The risks are predominantly mitigated by forward exchange contracts and currency swaps. Translation risks, on the other hand, emanate from changes to items on the balance sheet and income statement of a subsidiary caused by foreign exchange fluctuations and the effect these 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 bond for 1 billion euros issued by Henkel in May 2003 and on the hybrid bond for 1.3 billion euros issued by Henkel in November 2005 were both 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. Depending on interest rate expectations, Henkel also protects itself against short-term increases with additional interest rate caps and forward rate agreements.

Liquidity risk describes the ability of a company to meet its financial obligations at any given time. At Henkel, this risk can be regarded as extremely 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 secured 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 **financial risk management** can be found in **AR Note 42 starting on page 111**.

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 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, and environmental protection. The possibility cannot be discounted that the final decisions taken in some of these litigations and proceedings may 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 taken out insurance policies that are standard for the industry and that we consider to be adequate. 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 litigation. 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 holding 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 holding 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 the 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.

Outlook for the Henkel Group

World Economy

We anticipate that 2009 will be a year of marked recession.

We expect that the industrialized regions of Western Europe, North America and Japan will experience a decline in their overall economic performance based on the average for 2009. The emerging economies will also be affected with their growth rates declining accordingly. Despite the downturn, China and India are likely to undergo further expansion. In Russia, the financial crisis will have a dampening effect on growth.

We are more positive with respect to the development of raw material prices. Due to the bleak outlook for business activity, the price for crude oil in particular should remain appreciably below the 2008 level, based on the annual averages.

We anticipate that the US dollar will strengthen versus the euro as compared to the annual average for 2008.

Due to the expected decline in overall economic output in the USA and Western Europe, we expect short-term interest rates to remain low. The numerous fiscal policies introduced in order to expand business activity should, in our estimation, inject some small degree of momentum into the world economy.

Sector Development

We expect private consumption in the industrialized countries to stagnate. The reasons for this lie in continuing consumer reticence and the more restrictive credit conditions. We also expect the previously strong growth rates exhibited by the emerging markets to decline further.

We anticipate that the downturn on the industrial side will gradually bottom out toward the end of the year. In our estimate, however, there will be no increase in output in the industrialized countries over the year as a whole.

Overall, the automotive industry is likely to continue suffering from the worldwide recession in 2009. Structural problems and purchasing reluctance will have an adverse effect on this sector. Here again, the industrialized countries are expected to be more heavily impacted

than the emerging economies in which production increases are still possible.

Within the electronics industry, we anticipate a decline in semiconductor production.

The situation is likely to be difficult for the packaging industry and also for the metals sector. Production in the industrialized countries is unlikely to move beyond stagnation point, while the emerging markets are expected to exhibit below-average growth based on a long-term comparison.

There is no sign of any improvement in the construction sector of the industrialized countries, while the emerging economies will benefit from a continuing requirement for infrastructure improvement.

Opportunities and Risks

Despite the expected recession in the industrialized countries, opportunities may well arise from the generally positive underlying conditions that still prevail in the emerging economies. Unlike in the case of the industrialized countries, we expect these to continue exhibiting growth, albeit at a lower rate. We also see opportunity emanating from our full pipeline of innovative products scheduled to be launched by all three of our business sectors this year. Positive effects are also likely to ensue both from a decline in raw material prices as compared to 2008, and from the momentum generated by our acquisition of the National Starch businesses. We likewise see opportunities arising from the effective implementation of our three strategic priorities as detailed in the section entitled "Strategy and Financial Targets 2012" on **AR** pages 30 to 32.

We see risks arising from the recession transferring to the emerging economies and the possibility of a lengthy phase of declining economic growth. Further risks lie in a resurgence of raw material price volatility and in a weakening US dollar. There are additional risks in further consolidation at the customer level and in the possibility of increasing competition, to which we would need to respond with a further increase in our market investments.

Further specific opportunities and risks are discussed in the individual business sector reports starting on **AR** page 54.

Sales and Profits Forecast:

General Appraisal of Economic Developments

Expected in 2009

We expect that the difficult market conditions prevailing in the real economy and also in the financial markets will continue during the remainder of 2009. The general economic climate and its further development are difficult to predict, hampering specific forecasts for the current financial year. As soon as our markets enable us to make properly reasoned assumptions, we will communicate quantified expectations.

Nevertheless, we are confident of outperforming our markets in terms of organic growth (i.e. growth after adjusting for foreign exchange and acquisitions/divestments). We have a solid competitive platform which, over the years, we have further underpinned and extended through our innovative strength, our strong brands, our leading market positions, and the quality of our portfolio.

We have introduced a number of measures on the operational side from which we expect positive momentum to develop. For example, we anticipate appreciable and sustainable contributions to earnings to emanate from our “Global Excellence” efficiency enhancement program, the synergies arising from the integration of the National Starch businesses and also our generally strict cost discipline. We also expect raw material prices to ease. All these factors will support the development of our operating profit (EBIT) and earnings per preferred share (EPS) – as adjusted in each case for one-time gains/charges and restructuring charges.

We will continue to focus on – and if necessary step up our efforts in – generating liquid funds; further reducing our net working capital therefore remains a high priority. In addition, our plans for acquisitions in fiscal 2009 have significantly decreased compared to 2008. We have also adapted our budget for capital expenditures on property, plant and equipment to the requirements of the current economic environment.

We have the right structures and have taken the necessary measures in order to enable us to cope with and overcome the currently adverse market conditions. We are confident that we will emerge from this difficult economic environment further strengthened.

Long-term Sales and Profits Forecast:

Financial Targets for 2012

In placing our focus on our three strategic priorities, we have laid the foundation for future profitable growth.

We expect 2009 to be a year of marked recession but that the world economy will return to its long-term growth path with rates of expansion of 3 to 4 percent between 2010 and 2012.

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 overall market. 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 the numerous 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

Effective January 26, 2009 we completed the process of disposing of our production facility in Aurora, Illinois, USA. The assets held for sale disclosed in the present consolidated annual financial statements were duly transferred to the purchasing counterparty.

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

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Consolidated Statement of Income

in million euros	Note	2007	%	2008	%	Change
Sales	1	13,074	100.0	14,131	100.0	8.1 %
Cost of sales ¹⁾	2	-7,013	-53.6	-8,190	-58.0	16.8 %
Gross profit		6,061	46.4	5,941	42.0	-2.0 %
Marketing, selling and distribution expenses ¹⁾	3	-3,748	-28.6	-3,993	-28.3	6.5 %
Research and development expenses ¹⁾	4	-350	-2.7	-429	-3.0	22.6 %
Administrative expenses ¹⁾	5	-664	-5.1	-825	-5.8	24.2 %
Other operating income	6	109	0.8	160	1.1	46.8 %
Other operating charges	7	-64	-0.5	-75	-0.5	17.2 %
Operating profit (EBIT)		1,344	10.3	779	5.5	-42.0 %
Share of net profits of associates		88	0.7	83	0.6	-5.7 %
Gain from sale of investment in Ecolab Inc.		-	-	1,042	7.3	> 100.0 %
Net result from other investments		-4	-0.1	-2	0.0	-50.0 %
Investment result		84	0.6	1,123	7.9	> 100.0 %
Interest income		91	0.7	91	0.6	-
Interest expense		-269	-2.1	-366	-2.5	36.1 %
Net interest		-178	-1.4	-275	-1.9	54.5 %
Financial result	8	-94	-0.7	848	6.0	> 100.0 %
Earnings before tax		1,250	9.6	1,627	11.5	30.2 %
Taxes on income	9	-309	-2.4	-394	-2.8	27.5 %
Net earnings		941	7.2	1,233	8.7	31.0 %
– Attributable to minority shareholders	10	20	0.2	12	0.1	-40.0 %
– Attributable to shareholders of Henkel AG & Co. KGaA		921	7.0	1,221	8.6	32.6 %

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

Earnings per share (basic)

in euros	Note	2007	2008	Change
Ordinary shares	47	2.12	2.81	32.5 %
Non-voting preferred shares	47	2.14	2.83	32.2 %

Earnings per share (diluted)

in euros	Note	2007	2008	Change
Ordinary shares	47	2.12	2.79	31.6 %
Non-voting preferred shares	47	2.13	2.81	31.9 %

Additional voluntary information

in million euros		2007	2008
EBIT (as reported)		1,344	779
One-time gains		-8	-30
One-time charges ¹⁾		-	48
Restructuring charges ²⁾		34	663
Adjusted EBIT		1,370	1,460³⁾
Adjusted return on sales		<i>in %</i>	10.5
Gain from sale of investment in Ecolab Inc.		-	1.042
Adjusted financial result		-94	-194
Adjusted net earnings after minority interests		941	945
Adjusted earnings per preferred share		<i>in euros</i>	2.19
			2.19³⁾

¹⁾ 2008 figure includes 36 million euros in charges arising from the integration of the National Starch businesses

²⁾ 2008 figure includes 504 million euros "Global Excellence", 142 million euros National Starch and 17 million euros ordinary activities

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

Consolidated Balance Sheet

Assets

in million euros	Note	2007	%	2008	%
Intangible assets	11	4,940	37.9	8,392	52.2
Property, plant and equipment	12	2,077	15.9	2,361	14.7
Investments in associates		495	3.8	1	—
Other investments		33	0.3	23	0.1
Financial assets	13	528	4.1	24	0.1
Other financial assets	14	66	0.5	172	1.1
Income tax refund claims		4	—	3	—
Other non-current assets	15	67	0.5	4	—
Deferred taxes	16	249	1.9	305	1.9
Non-current assets		7,931	60.8	11,261	70.0
Inventories	17	1,283	9.8	1,482	9.2
Trade accounts receivable	18	1,694	13.0	1,847	11.5
Other financial assets	19	170	1.3	575	3.6
Other current assets	20	315	2.4	256	1.6
Income tax refund claims		90	0.7	202	1.3
Liquid funds/Marketable securities	21	1,440	11.0	338	2.1
Assets held for sale	22	125	1.0	113	0.7
Current assets		5,117	39.2	4,813	30.0
Total assets		13,048	100.0	16,074	100.0

Shareholders' Equity and Liabilities

in million euros	Note	2007	%	2008	%
Subscribed capital	23	438	3.3	438	2.7
Capital reserve	24	652	5.0	652	4.1
Retained earnings	25	5,963	45.7	6,805	42.3
Gains and losses recognized in equity	26	-1,410	-10.8	-1,411	-8.8
Equity excluding minority interests		5,643	43.2	6,484	40.3
Minority interests	27	63	0.5	51	0.3
Equity including minority interests		5,706	43.7	6,535	40.6
Pensions and similar obligations	28	657	5.0	833	5.2
Long-term income tax provisions	29	100	0.8	177	1.1
Other long-term provisions	29	119	0.9	336	2.1
Long-term borrowings	30	2,304	17.7	2,402	14.9
Non-current financial liabilities	31	147	1.1	77	0.5
Other non-current liabilities	32	10	0.1	9	0.1
Deferred taxes	33	314	2.4	412	2.5
Non-current liabilities		3,651	28.0	4,246	26.4
Current income tax provisions	34	152	1.2	343	2.1
Other current provisions	34	763	5.9	866	5.4
Short-term borrowings	35	838	6.4	1,817	11.3
Trade accounts payable	36	1,477	11.3	1,678	10.5
Current financial liabilities	37	246	1.9	272	1.7
Other current liabilities	38	200	1.5	306	1.9
Income tax liabilities		15	0.1	11	0.1
Current liabilities		3,691	28.3	5,293	33.0
Total equity and liabilities		13,048	100.0	16,074	100.0

Consolidated Cash Flow Statement

See Note 48

in million euros	2007	2008
Operating profit (EBIT)	1,344	779
Income taxes paid	−305	−412
Amortization/depreciation/write-ups of non-current assets (excluding financial assets)	337	546
Net gains/losses on disposal of non-current assets (excluding financial assets)	−5	3
Change in inventories	−60	−78
Change in trade accounts receivable	81	108
Change in other receivables and miscellaneous assets	−24	60
Change in trade accounts payable	56	−36
Change in other liabilities and provisions	−103	195
Cash flow from operating activities	1,321	1,165
Purchase of intangible assets	−40	−20
Purchase of property, plant and equipment	−470	−473
Purchase of financial assets/acquisitions	−7	−3,708
Proceeds on disposal of subsidiaries and business units	93	57
Proceeds on disposal of other non-current assets	63	1,752
Realization of net investment hedge	4	119
Cash flow from investing activities/acquisitions	−357	−2,273
Henkel AG & Co. KGaA dividends	−211	−224
Subsidiary company dividends (to other shareholders)	−12	−8
Interest received	87	90
Dividends received	29	22
Interest paid	−314	−607
<i>Dividends and interest paid and received</i>	<i>−421</i>	<i>−727</i>
Change in borrowings	9	757
Other financing transactions	13	−10
Cash flow from financing activities	−399	20
Change in cash and cash equivalents due to movement in funds	565	−1,088
Change in cash and cash equivalents due to exchange rate movements	−54	−14
Change in liquid funds and marketable securities	511	−1,102
Liquid funds and marketable securities at January 1	929	1,440
Liquid funds and marketable securities at December 31	1,440	338

Consolidated Statement of Recognized Income and Expense

in million euros	2007	2008
Net earnings	941	1,233
Foreign exchange effects	-425	103
Financial instruments	-92	-100
Actuarial gains/losses	-7	-186
Share of net profits of associates		
Effects arising from the current financial year	-52	33
Elimination of cumulative foreign exchange effects since initial inclusion	-	-16
Other gains and losses recognized in equity	3	-
Gains and losses recognized directly in equity	-573	-166
Total earnings for the period	368	1,067
- Attributable to minority shareholders	15	16
- Attributable to shareholders of Henkel AG & Co. KGaA	353	1,051

Notes to the Consolidated Financial Statements: Statement of Changes in Equity

See Notes 23 to 27

in million euros	Gains and losses recognized in equity								
	Ordinary shares	Pre- ferred shares	Tre- asury stock	Capital reserve	Re- tained earn- ings	Transla- tion differ- ences	Financial instru- ments	Minority interests	Total
At January 1, 2007	222	152	-128	652	5,490	-881	-20	60	5,547
Distributions	-	-	-	-	-211	-	-	-12	-223
Sale of treasury stock	-	-	9	-	5	-	-	-	14
Net earnings	-	-	-	-	921	-	-	20	941
Foreign exchange effects	-	-	-	-	-	-417	-	-8	-425
Financial instruments	-	-	-	-	-	-	-92	-	-92
Increase in share capital out of corporate funds	38	26	-	-	-64	-	-	-	-
Actuarial gains and losses	-	-	-	-	-7	-	-	-	-7
Other gains and losses recognized in equity	-	-	-	-	-52	-	-	3	-49
At December 31, 2007/									
January 1, 2008	260	178	-119	652	6,082	-1,298	-112	63	5,706
Distributions	-	-	-	-	-224	-	-	-8	-232
Sale of treasury stock	-	-	4	-	1	-	-	-	5
Net earnings	-	-	-	-	1,221	-	-	12	1,233
Foreign exchange effects	-	-	-	-	-	99	-	4	103
Financial instruments	-	-	-	-	-	-	-100	-	-100
Actuarial gains and losses	-	-	-	-	-186	-	-	-	-186
Other gains and losses recognized in equity	-	-	-	-	26	-	-	-20	6
At December 31, 2008	260	178	-115	652	6,920	-1,199	-212	51	6,535

Group Segment Report by Business Sector¹⁾

See Note 46

in million euros	Laundry & Home Care	Cosmetics/ Toiletries	Adhesives for Crafts- men and Consumers	Industrial Adhesives	Total Adhesive Technologies	Operating business sectors total	Corporate	Henkel
Sales 2008	4,172	3,016	2,092	4,608	6,700	13,888	243	14,131
Change from previous year	0.6 %	1.5 %	0.0 %	27.3 %	17.3 %	8.2 %	–	8.1 %
Proportion of Group sales	30 %	21 %	15 %	32 %	47 %	98 %	2 %	100 %
Sales 2007	4,148	2,972	2,091	3,620	5,711	12,831	243	13,074
EBITDA 2008	551	427	281	593	874	1,852	-527	1,325
EBITDA 2007	569	422	280	492	772	1,763	-82	1,681
Change from previous year	-3.0 %	1.1 %	0.5 %	20.4 %	13.2 %	5.1 %	–	-21.1 %
Return on sales (EBITDA) 2008	13.2 %	14.1 %	13.5 %	12.9 %	13.0 %	13.3 %	–	9.4 %
Return on sales (EBITDA) 2007	13.7 %	14.2 %	13.4 %	13.6 %	13.5 %	13.7 %	–	12.8 %
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	–	–	–	–	–	–	–	–
Amortization/depreciation and write-ups of trademark rights, other rights and property, plant and equipment 2007	110	50	50	101	151	311	26	337
of which impairment losses 2007	2	1	–	–	–	3	2	5
of which write-ups 2007	–	–	–	1	1	1	2	3
EBIT 2008	439	376	233	425	658	1,473	-694⁴⁾⁵⁾	779
EBIT 2007	459	372	230	391	621	1,452	-108	1,344
Change from previous year	-4.2 %	0.9 %	1.2 %	8.8 %	6.0 %	1.5 %	–	-42.0 %
Return on sales (EBIT) 2008	10.5 %	12.5 %	11.1 %	9.2 %	9.8 %	10.6 %	–	5.5%
Return on sales (EBIT) 2007	11.1 %	12.5 %	11.0 %	10.8 %	10.9 %	11.3 %	–	10.3 %
Capital employed 2008²⁾	2,604	2,151	1,299	5,291	6,590	11,345	-24	11,321
Capital employed 2007 ²⁾	2,752	2,236	1,277	2,403	3,680	8,668	76	8,744
Change from previous year	-5.4 %	-3.8 %	1.8 %	120.2 %	79.1 %	30.9 %	–	29.5 %
Return on capital employed (ROCE) 2008	16.9 %	17.5 %	17.9 %	8.0 %	10.0 %	13.0 %	–	6.9 %
Return on capital employed (ROCE) 2007	16.7 %	16.7 %	18.0 %	16.3 %	16.9 %	16.8 %	–	15.4 %
Capital expenditures (excl. financial assets) 2008	169	103	137	3,624	3,761	4,033	36	4,069
Capital expenditures (excl. financial assets) 2007	180	77	83	153	236	493	47	540
Operating assets 2008³⁾	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 2008³⁾	2,739	1,944	1,218	4,988	6,206	10,889	-24	10,865
Operating assets 2007 ³⁾	4,123	2,917	1,665	3,025	4,690	11,730	361	12,091
Operating liabilities 2007	1,234	873	453	909	1,362	3,469	285	3,754
Net operating assets employed 2007 ³⁾	2,889	2,044	1,212	2,116	3,328	8,261	76	8,337

¹⁾ Calculated on the basis of units of 1,000 euros²⁾ Including goodwill at cost prior to any accumulated amortization in accordance with IFRS 3.79b³⁾ Including goodwill at net book value⁴⁾ Distribution of restructuring charges for "Global Excellence" (504 million euros) and National Starch businesses (142 million euros) of 646 million euros by business sector as follows: Laundry & Home Care 189 million euros; Cosmetics/Toiletries 100 million euros; Adhesive Technologies 303 million euros; Corporate 54 million euros; the ordinary restructuring charges have been allocated to the operating business sectors⁵⁾ From Corporate 31 million euros Corporate Research expenses allocated to business sectors as follows: Laundry & Home Care 14 million euros; Cosmetics/Toiletries 7 million euros; Adhesive Technologies 10 million euros

Group Segment Report by Region¹⁾

See Note 46

in million euros	Europe/ Africa/ Middle East	North America (USA, Canada)	Latin America	Asia- Pacific	Regions total	Corporate	Henkel
Sales by location of company 2008	8,863	2,700	780	1,545	13,888	243	14,131
Change from previous year	4.5 %	5.6 %	12.8 %	40.1 %	8.2 %	–	8.1 %
Proportion of Group sales	63 %	19 %	5 %	11 %	98 %	2 %	100 %
Sales by location of company 2007	8,480	2,557	691	1,103	12,831	243	13,074
Sales by location of customer 2008	8,798	2,668	791	1,631	13,888	243	14,131
Change from previous year	4.8 %	4.9 %	11.6 %	38.0 %	8.2 %	–	8.1 %
Proportion of Group sales	62 %	19 %	6 %	11 %	98 %	2 %	100 %
Sales by location of customer 2007	8,397	2,543	709	1,182	12,831	243	13,074
EBITDA 2008	1,184	388	86	194	1,852	-527	1,325
EBITDA 2007	1,204	378	77	104	1,763	-82	1,681
Change from previous year	-1.6 %	2.6 %	11.8 %	86.9 %	5.1 %	–	-21.1 %
Return on sales (EBITDA) 2008	13.4 %	14.4 %	11.0 %	12.6 %	13.3 %	–	9.4 %
Return on sales (EBITDA) 2007	14.2 %	14.8 %	11.1 %	9.4 %	13.7 %	–	12.8 %
EBIT 2008	962	299	66	146	1,473	-694³⁾⁴⁾	779
EBIT 2007	1,005	308	58	81	1,452	-108	1,344
Change from previous year	-4.3 %	-2.8 %	14.3 %	80.0 %	1.5 %	–	-42.0 %
Return on sales (EBIT) 2008	10.9 %	11.1 %	8.5 %	9.4 %	10.6 %	–	5.5 %
Return on sales (EBIT) 2007	11.9 %	12.1 %	8.4 %	7.3 %	11.3 %	–	10.3 %
Return on capital employed (ROCE) 2008	23.8 %	5.6 %	13.5 %	9.6 %	13.0 %	–	6.9 %
Return on capital employed (ROCE) 2007	30.4 %	7.3 %	13.7 %	11.4 %	16.8 %	–	15.4 %
Operating assets 2008²⁾	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 2008²⁾	3,483	5,480	468	1,458	10,889	-24	10,865
Operating assets 2007 ²⁾	5,215	4,980	529	1,006	11,730	361	12,091
Operating liabilities 2007	2,447	560	130	332	3,469	285	3,754
Net operating assets employed 2007²⁾	2,768	4,420	399	674	8,261	76	8,337

¹⁾ Calculated on the basis of units of 1,000 euros²⁾ Including goodwill at net book value³⁾ Distribution of restructuring charges for "Global Excellence" (504 million euros) and National Starch businesses (142 million euros) of 646 million euros by region as follows: Europe/Africa/Middle East 424 million euros; North America 159 million euros; Latin America 15 million euros; Asia-Pacific 48 million euros; the ordinary restructuring charges have been allocated to the operating business sectors⁴⁾ From Corporate 31 million euros Corporate Research expenses allocated to Europe/Africa/Middle East

In the operating business sectors, affiliated companies located in Germany, including the parent company, achieved sales in 2008 of 2,020 million euros (2007: 2,081 million euros) and reported intangible assets and property, plant and equipment at December 31, 2008 of 1,123 million euros (2007: 990 million euros).

The affiliated companies domiciled in North America reported intangible assets, property, plant and equipment at December 31, 2008 of 5,793 million euros (2007: 3,841 million euros).

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, 2007	5,945	5,327	579	11,851
Changes in the Group/Acquisitions	-2	-76	-31	-109
Additions	40	470	67	577
Disposals ¹⁾	-86	-242	-61	-389
Reclassifications	16	-16	-	-
Translation differences	-489	-126	-8	-623
At December 31, 2007/January 1, 2008	5,424	5,337	546	11,307
Changes in the Group/Acquisitions	3,222	342	3	3,567
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	8,928	5,713	31	14,672
¹⁾ of which assets held for sale 2008	-1	-188	-12	-201
¹⁾ of which assets held for sale 2007	-65	-44	-	-109

Accumulated amortization/depreciation

in million euros	Intangible assets	Property, plant and equipment	Financial assets	Total
At January 1, 2007	458	3,249	17	3,724
Changes in the Group/Acquisitions	-5	-51	-	-56
Write-ups	-	-3	-	-3
Scheduled amortization/depreciation	56	279	-	335
Impairment losses	1	4	4	9
Disposals ¹⁾	-19	-164	-3	-186
Reclassifications	1	-1	-	-
Translation differences	-8	-53	-	-61
At December 31, 2007/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	536	3,352	7	3,895
¹⁾ of which assets held for sale 2008	-	-169	-8	-177
¹⁾ of which assets held for sale 2007	-	-17	-	-17

Net book value

in million euros	Intangible assets	Property, plant and equipment	Financial assets	Total
At December 31, 2008	8,392	2,361	24	10,777
At December 31, 2007	4,940	2,077	528	7,545

The impairment losses are allocated to the relevant functions.

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 30, 2009, 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 balance sheet and in the 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, 2008 include 11 German and 233 non-German 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 changed in the course of 2008 compared to the previous year. There were 64 companies included in the consolidated Group figures for the first time, 8 companies were merged and 17 companies are no longer consolidated. The financial investment in Ecolab Inc., St. Paul, Minnesota, USA, which has been accounted for using the at-equity method, was divested on November 18, 2008 (closing).

Acquisition of the National Starch businesses

On April 3, 2008, we acquired the Adhesives and Electronic Materials businesses belonging to 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).

Due to the size and complexity of the transaction, the purchase price allocation of the acquisition in accordance with IFRS 3 “Business Combinations” has not yet been completed. The provisional difference determined for the purpose of this report is 2,903 million euros.

The still ongoing purchase price allocation process serves to finally 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, trademarks and brands. It should be noted that the purchase price allocation will lead to the recognition of hidden reserves and hidden charges in the assets, liabilities and contingent liabilities of the acquired businesses, and thus to expenses in the form of additionally accruing depreciation and amortization charges against income.

The table overleaf shows the reconciliation between the purchase price and provisional goodwill 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 IAS 39, we have recognized this amount as a deduction in Group equity and have also deducted it from the purchase price as of April 3 in calculating the provisional difference.

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 and valuation methods of the Henkel Group were applied:

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

in million euros	2008
Purchase price	3,676
Purchase price adjustment based on provisions of the sale agreement	173
Fair value of cash flow hedge	-332
Adjusted purchase price	3,517
Incidental acquisition costs	26
Cost of acquisition of the National Starch businesses	3,543
Book values of the acquired assets and liabilities	-640
Provisional difference	2,903
Customer relationships	289
Technologies	215
Trademarks and brands	98
Other intangible assets	61
Other assets and liabilities	3
Deferred taxes	-227
Provisional goodwill	2,464

The inclusion of the National Starch businesses had the following influence on the assets and liabilities of the Henkel Group:

Opening balance sheet as of April 3, 2008

in million euros	Book value	Adjustment	Fair value
Provisional goodwill	-	2,464	2,464
Other intangible assets	18	663	681
Property, plant and equipment	329	15	344
Financial assets	4	-	4
Other non-current assets	8	-	8
Deferred taxes	83	-	83
Non-current assets	442	3,142	3,584
Inventories	165	11	176
Trade accounts receivable	306	-	306
Other current assets	298	-	298
Liquid funds/Marketable securities	84	-	84
Current assets	853	11	864
Total assets	1,295	3,153	4,448
Net assets	640	2,903	3,543
Provisions for pensions and similar obligations	130	-	130
Other long-term provisions and non-current liabilities	27	-	27
Deferred taxes	44	227	271
Non-current liabilities	201	227	428
Other short-term provisions and current liabilities	153	23	176
Short-term borrowings	51	-	51
Trade accounts payable	250	-	250
Current liabilities	454	23	477
Total equity and liabilities	1,295	3,153	4,448

From April 3, 2008 to December 31, 2008, the acquired National Starch businesses contributed 1,204 million euros to Henkel Group sales. The contribution to net earnings made by these businesses over the same period, after adjusting for restructuring charges of 142 million euros, amounted to 23 million euros. If the acquired businesses had been consolidated as of January 1, 2008, Henkel sales in the reporting period from January 1 to December 31, 2008 would have increased by 1,609 million euros, and net earnings after tax would have been 31 million euros higher.

The purchase price and therefore the goodwill figure determined following provisional purchase price allocation essentially represents anticipated synergies arising from the integration of the National Starch businesses within the Henkel organization.

Other acquisitions and divestments

On January 11, 2008 Henkel sold Henkel Concorde S.A.S. and the entire industrial water treatment business to BK Giulini, Ludwigshafen. This measure was in accordance with our strategy of focusing on our core businesses and of shedding non-core activities as and when appropriate. BK Giulini is a subsidiary of Israel Chemicals Ltd. (ICL). The water treatment business, which was assigned to the Adhesive Technologies business sector, generated sales of around 52 million euros in 2007. The sale of the business yielded a profit of 8 million euros.

Sale of the investment in Ecolab

On November 12, 2008, Henkel successfully placed its 29.5 percent stake in the associated company Ecolab Inc., St. Paul, Minnesota, USA by way of a public offer for sale and a stock repurchase by Ecolab. The public offering closed on November 18, 2008 and the stock repurchase on November 19, 2008. A total of 72.7 million shares were sold. The sale proceeds were 1,712 million euros after deduction of transaction costs (30 million euros) and adjustment for negative foreign exchange effects (16 million euros).

Until the time of the sale, the shares in Ecolab were accounted for under "Financial assets" using the equity method at the appropriate proportion of its net assets (see also Notes 8 and 13, [AR pages 88/89 and 96/97](#)). In the consolidated financial statements, the sale proceeds were translated applying the exchange rate of 1.2465 US dollars/euro pertaining at the time of the transaction.

No business relationships of note existed between Ecolab and Henkel.

Calculation of gain from sale of Ecolab investment

in million euros	2008
Proceeds of sale	1,712
Book value of investment including items recognized in equity ¹⁾	670
Gain from sale of investment	1,042

¹⁾ Including 16 million euros recycled from equity per IAS 27.30, and currency translation adjustments of 16 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 are fully reflected at fair value and all identifiable intangible assets are 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 supplied by other companies in the Group, are eliminated on consolidation. Intra-Group supplies are effected on the basis of market or transfer prices.

Currency translation

The financial statements of the consolidated companies included in the consolidation, 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 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 disclosed under other gains and losses recognized in equity, without affecting 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	
		2007	2008	2007	2008
British pounds	GBP	0.68	0.80	0.7334	0.9525
Swiss francs	CHF	1.64	1.59	1.6547	1.4850
Japanese yen	JPY	161.20	152.56	164.9300	126.1400
US dollars	USD	1.37	1.47	1.4721	1.3917

Our treatment with respect to the major transactions undertaken in the year under review was as follows:

- » We valued and converted the acquisition of the National Starch businesses using the closing rates pertaining as of the date of the acquisition.
- » We valued and converted the proceeds from our divestment of Ecolab Inc. using the closing rates pertaining as of the closing date of the public offering.

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. Adjustments and restatements with respect to 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 effective, have not yet been applied:

- » In January 2008, the International Accounting Standards Board (IASB) issued a revision of International Financial Reporting Standard (IFRS) 2 "Share-based Payment". This revision restricts the definition of vesting conditions to include only service conditions and performance conditions. It also stipulates that the accounting rules relating to early termination of a plan apply irrespective of whether the plan is terminated by the entity itself or another party. The amendments are applicable for financial years beginning on or after January 1, 2009, with earlier application permitted.
- » In September 2007, the IASB issued a revision of International Accounting Standard (IAS) 1 "Presentation of Financial Statements: A Revised Presentation". This replaces the version issued in 2005. The purpose of the revision is to improve the ease of the analysis and comparability of annual financial statements for their users. IAS 1 stipulates the principles for the presentation and structure of financial statements. It also specifies the minimum requirements governing the content of financial statements. The new standard is applicable for financial years beginning on or after January 1, 2009, with earlier application permitted.
- » In March 2007, the IASB issued a revision of the standard IAS 23 "Borrowing Costs". This requires the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. An asset is deemed to qualify where it necessarily takes a substantial period of time to get it ready for its intended use or sale. The standard is to be applied prospectively to borrowing costs relating to qualifying assets which are capitalized on or after January 1, 2009.
- » In February 2008, the IASB issued amendments to IAS 32 "Financial Instruments: Presentation" and to IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". The amendments primarily relate to the classification of certain types of financial instruments as equity or a financial liability. It also requires the inclusion of additional notes to the financial statements detailing those financial instruments affected by this classification requirement. The amendments are applicable for financial years beginning on or after January 1, 2009, with earlier application permitted.
- » In May 2008, the IASB issued its first collective standard "Improvements to IFRSs" aimed at implementing minor changes to existing IFRS standards. This standard proposes changes to 20 IFRS standards. The first part relates to accounting changes for presentation, recognition or measurement purposes. The second part contains amendments comprised of terminology or editorial changes only. Unless otherwise stipulated in the standard, the amendments are applicable for financial years beginning on or after January 1, 2009, with earlier application permitted.
- » The amendments stipulated in IFRS 1 and IAS 27 "Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate" relate to the first-time application of IFRSs and have no relevance for Henkel.
- » International Financial Reporting Interpretations Committee interpretation IFRIC 13 "Customer Loyalty Programmes" relates to the recognition and measurement of such customer loyalty programs in which generally customers are awarded points (loyalty award credits) that allow them to obtain goods or services free of charge or at discounted prices from the seller or a third party. According to IFRIC 13, the proceeds from the sale have to be divided into two components. One part of the revenue is assigned to the actual sale transaction giving rise to the award credits. The other part is assigned to the future transaction resulting from redemption of the award credits. The portion of the proceeds allocated to the goods

already sold or service already performed is to be recognized in profit or loss. The portion of the revenue attributable to the award credits is regarded as deferred and recognized as a liability in the sense of a payment in advance until the award credits are redeemed by the customer and the related obligation has been fulfilled. The interpretation is applicable for financial years beginning on or after July 1, 2008, with earlier application permitted.

These interpretations and standards will be applied by Henkel from fiscal 2009 or later. We expect the future application of IFRIC 13 and the changes to the aforementioned standards not to have a significant impact on the presentation of the financial statements.

In 2008, the IASB issued the following standards or interpretations of and amendments to standards of relevance to Henkel which still have to be adopted in EU law (endorsement mechanism) before they become applicable:

- » Revised IFRS 3 "Business Combinations"
- » Revised IAS 27 "Consolidated and Separate Financial Statements"
- » Amendment to IAS 39 "Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement"
- » IFRIC 15 "Agreements for the Construction of Real Estate"
- » IFRIC 16 "Hedges of a Net Investment in a Foreign Operation"
- » IFRIC 17 "Distributions of Non-cash Assets to Owners"
- » IFRIC 18 "Transfers of Assets from Customers"

These interpretations and standards will be applied by Henkel from fiscal 2009 or later. We expect the future application of IFRIC 15–18 and the changes to the aforementioned standards 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 **AB** pages 78 and 79.

(2) Cost of sales

Cost of sales comprises the cost of products and services sold and the purchase cost of merchandise sold. It consists of the directly attributable cost of materials and primary production cost, as well as indirect production overheads including the 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 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	2007	2008
Gains on disposal of non-current assets	14	14
Profits on sale of businesses	–	8
Income from release of provisions	35	44
Income from release of valuation allowances for doubtful debts	6	6
Write-ups of non-current assets	3	–
Sundry operating income ¹⁾	51	88
Total	109	160

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

Profits on sale of businesses relate to the sale of our water treatment business.

The rise in sundry operating income relates to a number of individual items from our operating businesses and is further attributable to the first-time consolidation of the National Starch businesses in the year under review.

(7) Other operating charges

Other operating charges

in million euros	2007	2008
Write-downs of miscellaneous assets	5	4
Foreign exchange losses on operating activities ¹⁾	6	–
Losses on disposal of non-current assets	9	17
Sundry operating expenses	44	54
Total	64	75

¹⁾ The 2007 figure includes a net loss on translation of operating receivables and payables in foreign currency of 7 million euros and a net gain on the remeasurement to fair value of operating derivative hedge transactions of 1 million euros

(8) Financial result

Financial result

in million euros	2007	2008
Share of net profits of associates	88	83
Gain from the sale of investment in Ecolab Inc., USA	–	1,042
Net result from other investments	–4	–2
Net interest	–178	–275
Total	–94	848

Net result from other investments

in million euros	2007	2008
Income from other investments	–	3
Write-downs of shares in non-consolidated affiliated companies and investments at amortized cost	–3	–3
Other	–1	–2
Total	–4	–2

Net interest

in million euros	2007	2008
Interest and similar income from third parties	66	54
Other financial income	16	37
Expected return on plan assets less interest expense for pension provisions ¹⁾	9	–
Total interest income	91	91
Interest charges payable to third parties	–230	–306
Other financial charges	–39	–47
Interest expense for pension provisions less expected return on plan assets ¹⁾	–	–13
Total interest expense	–269	–366
Total	–178	–275

¹⁾ Interest expense of 179 million euros and expected interest income of 166 million euros (2007: interest expense of 151 million euros and expected interest income of 160 million euros)

On November 12, Henkel successfully placed its shareholding in Ecolab Inc., St. Paul, Minnesota, USA on the stock exchange. Including the stock sold back to Ecolab, the total number of Ecolab shares divested was 72.7 million. The sale of the Ecolab investment enables us to focus more firmly on our core operating businesses.

The net interest figure includes the net result on the valuation at fair value of marketable securities of 0 million euros (2007: net loss of -9 million euros), the net loss on translation of non-operating receivables and liabilities in foreign currency of -101 million euros (2007: net loss of -149 million euros) and the net gain on the remeasurement to fair value of non-operating derivative hedging instruments of 78 million euros (2007: net gain of 157 million euros).

(9) Taxes on income

Earnings before taxes on income and analysis of taxes

in million euros	2007	2008
Earnings before tax	1,250	1,627
Current taxes	290	570
Deferred taxes	19	-176
Taxes on income	309	394

Main components of tax expense and income

in million euros	2007	2008
Current tax expense/income in the reporting year	300	583
Current tax adjustments for prior years	-10	-13
Deferred tax expense/income from temporary differences	9	-144
Deferred tax expense/income from changes in tax rates	-13	5
Increase/decrease in valuation allowances on deferred tax assets	-3	8

Allocation of deferred taxes

in million euros	Deferred tax assets		Deferred tax liabilities	
	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008
Intangible assets	40	127	401	664
Property, plant and equipment	16	37	81	86
Financial assets	66	69	25	4
Inventories	25	29	7	8
Other receivables and miscellaneous assets	78	62	31	107
Special tax-allowable items	5	9	71	57
Provisions	306	409	45	53
Liabilities	132	153	37	16
Tax credits	1	2	-	-
Unused tax losses	16	51	-	-
	685	948	698	995
Amounts netted	-384	-583	-384	-583
Valuation allowances	-52	-60	-	-
Balance sheet figures	249	305	314	412

A total of 220 million euros of the increase in deferred tax liabilities with respect to intangible assets is attributable to the acquisition of the National Starch businesses.

Deferred tax assets and liabilities are accounted for with respect to temporary differences between the balance sheet valuation of an asset or liability and its tax base, and with respect to unused tax losses and consolidation procedures affecting earnings. Amounts netted represent tax assets and liabilities relating to the same tax authority.

The deferred tax balances recognized by German and foreign companies with respect to temporary differences on provisions relate mainly to pensions and similar obligations.

German companies have recognized deferred tax balances in respect of special tax-allowable items relating to property, plant and equipment and to reinvestment reserves.

Whether deferred tax assets can be recognized depends on the probability that the deferred tax assets can actually be realized in the future. The level of probability must be more than 50 percent. Included under the heading "Unused tax losses" are deferred tax assets of 19 million euros in respect of unused tax losses in Germany, which are expected to be utilized by the end of 2010.

The valuation allowances on deferred tax assets of 60 million euros (2007: 52 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 the likelihood that they will be utilized in the future.

Deferred taxes have not been recognized with respect to unused tax losses of 358 million euros (2007: 412 million euros), as it is not sufficiently probable that taxable profit will be available against which they may be utilized. Deferred taxes of 2 million euros (2007: 1 million euros) have been recognized with respect to tax credits.

Expiry dates of unused tax losses and tax credits

	Unused tax losses		Tax credits	
	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008
Must be utilized within				
1 year	42	37	–	–
2 years	16	32	–	–
3 years	56	36	2	1
more than 3 years	225	203	–	1
May be carried forward without restriction	177	268	–	–
Total	516	576	2	2

This table includes unused tax losses arising from the disposal of assets of 9 million euros (2007: 11 million euros) which may be carried forward without restriction. In many countries, different tax rates apply to losses on the disposal of assets and to operating profits, and in some cases losses on the disposal of assets may only be offset against profits on the disposal of assets.

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.

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 reconciliation overleaf. The estimated tax charge, based on the tax rate applicable to Henkel AG & Co. KGaA of 31 percent (2007: 40 percent), is reconciled to the tax charge disclosed.

Calculation of the tax charge disclosed

in million euros	2007	2008
Earnings before taxes on income	1,250	1,627
Tax rate (including trade tax) on income of Henkel AG & Co. KGaA	40 %	31 %
Estimated tax charge	500	504
Tax reductions due to differences between local tax rates and the hypothetical tax rate	-153	-26
Tax reductions for prior years	-46	-61
Tax increases/reductions due to changes in tax rates	-13	5
Tax increases due to losses in respect of which deferred taxes have not been recognized	32	10
Effects of different tax rates on net result from investments (at-equity investments)	-34	-25
Tax reductions due to tax-free income and other items	-25	-22
Tax increases due to non-deductible expenses and other items	48	52
comprising		
Non-deductible expenses	32	28
Trade tax additions	12	10
Non-deductible withholding tax	4	14
Tax effect of sale of Ecolab shares	-	-43
Tax charge disclosed	309	394
Effective tax rate	24.72 %	24.22 %

Effective 2008, German corporation tax legislation stipulates a statutory tax rate of 15 percent plus the solidarity surcharge of 5.5 percent. After taking into account trade tax, this yields an expected tax rate of 31 percent.

A tax income of 55 million euros was recognized in equity (2007: tax expense of 26 million euros). This relates to actuarial gains and losses on pension obligations and the valuation of derivative financial instruments.

(10) Minority interests

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

Their share of profits amounted to 22 million euros (2007: 29 million euros) and that of losses to 10 million euros (2007: 9 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, 2007	1,170	919	74	3,782	5,945	
Changes in the Group/Acquisitions	–	–11	–	9	–2	
Additions	–	12	28	–	40	
Disposals ¹⁾	–	–22	–	–64	–86	
Reclassifications	–	–5	21	–	16	
Translation differences	–113	–41	–	–335	–489	
At December 31, 2007/January 1, 2008	1,057	852	123	3,392	5,424	
Changes in the Group/Acquisitions	86	597	–	2,539	3,222	
Additions	–	10	10	–	20	
Disposals ¹⁾	–	–41	–	–	–41	
Reclassifications	–5	7	4	–	6	
Translation differences	63	43	–1	192	297	
At December 31, 2008	1,201	1,468	136	6,123	8,928	
¹⁾ of which assets held for sale 2008	–	–1	–	–	–1	
¹⁾ of which assets held for sale 2007	–	–3	–	–62	–65	

Accumulated amortization

in million euros

	Trademark rights and other rights				Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	
At January 1, 2007	4	444	10	-	458
Changes in the Group/Acquisitions	-	-5	-	-	-5
Write-ups	-	-	-	-	-
Scheduled amortization	-	44	12	-	56
Impairment losses	-	1	-	-	1
Disposals	-	-19	-	-	-19
Reclassifications	-	-	1	-	1
Translation differences	-	-8	-	-	-8
At December 31, 2007/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	4	492	40	-	536

Net book value

in million euros

	Trademark rights and other rights				Total
	Assets with indefinite useful lives	Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	
At December 31, 2008	1,197	976	96	6,123	8,392
At December 31, 2007	1,053	395	100	3,392	4,940

Trademarks and other rights acquired for valuable consideration are stated initially at cost, while internally generated software is stated at 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. Allocation of trademark rights and other rights with indefinite useful lives, and also goodwill, to cash-generating units was, in the context of the purchase price allocation (PPA) relating to the acquisition of the National Starch businesses, aligned to the business areas of the Adhesive Technologies business sector, with the figures for the previous year being restated. The table overleaf 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, 2007		Dec. 31, 2008	
	Trademark rights and other rights with indefinite useful lives	Goodwill	Trademark rights and other rights with indefinite useful lives	Goodwill
Cash-generating units				
Detergents	321	631	338	661
Household cleaners	227	719	240	732
Total Laundry & Home Care	548	1,350	578	1,393
Retail products	444	970	466	1,006
Hair salon products	14	32	13	48
Total Cosmetics/Toiletries	458	1,002	479	1,054
Building adhesives	7	30	6	63
Adhesives for craftsmen and consumers	36	340	38	326
Packaging, consumer goods and construction adhesives	4	63	53	1,642
Specialty adhesives, surface treatment and electronics	–	607	43	1,645
Total Adhesive Technologies	47	1,040	140	3,676

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 four-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 1.53. 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: 7.5 percent after tax for Laundry & Home Care and Cosmetics/Toiletries and 8.5 percent after tax for Adhesive Technologies.

No goodwill impairment losses were recognized as a result of the impairment test.

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

Sales growth in the *Cosmetics/Toiletries* business sector over the four-year forecasting horizon is budgeted at around 3 percent per annum. With the cosmetics market relevant to Henkel expected to grow at an annual rate of 1 percent, this would mean an increase in market share.

The anticipated average sales growth during the four-year forecasting horizon in the *Adhesive Technologies* business sector is 7 percent per annum.

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 proactive management of the portfolio, we anticipate achieving higher gross margins in all the business sectors.

The trademark rights and other rights with an indefinite useful life are established in their markets and we will continue to vigorously promote them in the future.

In the impairment tests in 2008 for trademark rights and other rights with an indefinite useful life valued at 1,197 million euros, cash-generating units were identified and their recoverable amounts determined. No impairment losses were recognized as a result of the impairment test.

(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 Jan. 1, 2007	1,612	2,651	884	180	5,327
Changes in the Group/Acquisitions	-12	-54	-10	-	-76
Additions	62	144	83	181	470
Disposals ¹⁾	-67	-93	-73	-9	-242
Reclassifications	71	64	21	-172	-16
Translation differences	-42	-59	-20	-5	-126
At Dec. 31, 2007/Jan. 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 Dec. 31, 2008	1,938	2,752	887	136	5,713
¹⁾ of which assets held for sale 2008	-31	-147	-8	-2	-188
¹⁾ of which assets held for sale 2007	-30	-8	-6	-	-44

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 Jan. 1, 2007	761	1,867	621	-	3,249
Changes in the Group/Acquisitions	-6	-37	-8	-	-51
Write-ups	-2	-1	-	-	-3
Scheduled depreciation	46	147	86	-	279
Impairment losses	2	1	1	-	4
Disposals ¹⁾	-27	-73	-64	-	-164
Reclassifications	1	-2	-	-	-1
Translation differences	-13	-26	-14	-	-53
At Dec. 31, 2007/Jan. 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 Dec. 31, 2008	822	1,899	630	1	3,352
¹⁾ of which assets held for sale 2008	-18	-144	-7	-	-169
¹⁾ of which assets held for sale 2007	-8	-5	-4	-	-17

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, 2008	1,116	853	257	135	2,361
At December 31, 2007	862	777	263	175	2,077

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. Cost figures are shown net of investment grants and allowances. There were liabilities secured by mortgages at December 31, 2008 of 25 million euros (2007: 35 million euros). The periods over which the assets are depreciated are based on their estimated useful lives as set out on [AR page 92](#). Scheduled depreciation and impairment losses recognized are disclosed in the consolidated statement of income according to the functions for which the assets are used.

Impairment losses were incurred primarily in relation to our "Global Excellence" restructuring program.

(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 the associated company Ecolab Inc., St. Paul, Minnesota, USA, were accounted for until the time of divestment on November 18, 2008 using the at-equity method at the appropriate proportion of its net assets (see Note 8, [AR page 88](#)).

Cost

in million euros	Affiliated companies	Investments in associates	Other investments	Total
At Jan. 1, 2007	45	496	38	579
Changes in the Group/Acquisitions	-31	-	-	-31
Additions	7	59	1	67
Disposals	-2	-52	-7	-61
Reclassifications	-	-	-	-
Translation differences	-	-8	-	-8
At Dec. 31, 2007/Jan. 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 Dec. 31, 2008	21	1	9	31
¹⁾ of which assets held for sale 2008	-	-	-12	-

Accumulated write-downs

in million euros	Affiliated companies	Investments in associates	Other investments	Total
At Jan. 1, 2007	2	–	15	17
Changes in the Group/Acquisitions	–	–	–	–
Write-ups	–	–	–	–
Write-downs	–	–	4	4
Disposals	–	–	–3	–3
Reclassifications	–	–	–	–
Translation differences	–	–	–	–
At Dec. 31, 2007/Jan. 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 Dec. 31, 2008	3	–	4	7
¹⁾ of which assets held for sale 2008	–	–	–8	–

Net book value

in million euros	Affiliated companies	Investments in associates	Other investments	Total
At Dec. 31, 2008	18	1	5	24
At Dec. 31, 2007	17	495	16	528

(14) Other non-current financial assets¹⁾**Other non-current financial assets**

in million euros	Dec. 31, 2007	Dec. 31, 2008
Financial receivables from third parties	29	26
Derivatives with positive fair values	–	65
Miscellaneous non-current financial assets	37	81
Total	66	172

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 employees, from insurance policies and from suppliers.

(15) Other non-current assets¹⁾

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

¹⁾ Improvements in data collection during the financial year have led to amounts being allocated differently between "Other non-current financial assets" and "Other non-current assets".

(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, [AB page 89 to 91](#)).

(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 87 million euros (2007: 69 million euros).

Analysis of inventories

in million euros	Dec. 31, 2007	Dec. 31, 2008
Raw materials and supplies	396	472
Work in process	64	65
Finished products and merchandise	818	943
Payments on account for merchandise	5	2
Total	1,283	1,482

(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 36 million euros (2007: 15 million euros) have been recognized. Trade accounts receivable include an amount of 0 million euros (2007: 8 million euros) relating to receivables which have been sold to a factoring company but are still included as assets in the balance sheet because the credit risk has not been fully transferred to the factor. In 2007, the cash received was disclosed as a liability to the factoring company.

(19) Other current financial assets¹⁾

Other current financial assets

in million euros	Dec. 31, 2007	Dec. 31, 2008
Amounts receivable from non-consolidated affiliated companies	7	3
Amounts receivable from companies in which an investment is held	9	9
Financial receivables from third parties	48	166
Derivatives with positive fair values	59	241
Miscellaneous current financial assets	47	156
Total	170	575

¹⁾ Improvements in data collection during the financial year have led to amounts being allocated differently between "Other current financial assets" and "Other current assets"

With the exception of derivatives, other current financial assets are stated at amortized cost approximating to their fair values. Impairment losses are recognized if any risks associated with them are identified. Derivative financial instruments are measured initially at cost and subsequently at their fair values on the balance sheet date.

Miscellaneous current financial assets include the following:

- » Amounts due from employees of 8 million euros (2007: 9 million euros)
- » Amounts due from suppliers of 21 million euros (2007: 25 million euros)
- » Amounts due from sureties and guarantee deposits of 20 million euros (2007: 15 million euros)

(20) Other current assets¹⁾

Other current assets comprise other tax receivables of 165 million euros (2007: 117 million euros), payments on account of 18 million euros (2007: 26 million euros) and various prepaid expenses and deferred charges.

(21) Liquid funds/Marketable securities

Liquid funds/Marketable securities

in million euros	Dec. 31, 2007	Dec. 31, 2008
Liquid funds	1,429	319
Marketable securities	11	19
Total	1,440	338

Marketable securities are accounted for at their fair values at the balance sheet date. Changes in the value are recognized directly in equity (see **AR** Note 42 starting on page 111).

Liquid funds are set off against bank loans from the so-called bridge loan where the deposit and the loan are with the same lender and are of similar maturity. Liquid funds set off amounted to 1,057 million euros.

(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 did not lead to the recognition of any impairment losses. Assets held for sale include the production plant in Aurora, Illinois, USA, for soap bars and deodorants/anti-perspirants in the Cosmetics/Toiletries business sector and the consumer adhesives business in North America, which is assigned to the Adhesive Technologies business sector.

(23) Subscribed capital

Subscribed capital

in million euros	Dec. 31, 2007	Dec. 31, 2008
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		

¹⁾ Improvements in data collection during the financial year have led to amounts being allocated differently between "Other current financial assets" and "Other current assets"

According to Art. 6 (5) of the Articles of Association, the personally liable partner is authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital stock 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 – with 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 14, 2008, the personally liable partner was authorized (with the simultaneous withdrawal of the authorization granted at the Annual General Meeting on April 16, 2007 with a duration until October 15, 2008) to purchase ordinary or preferred shares in the corporation not exceeding 10 percent of the capital stock at any time up to October 13, 2009.

The personally liable partner was authorized – with 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:

- » offering and transferring them to members of the Management Board and certain executive management personnel of Henkel AG & Co. KGaA and to members of the management boards and certain executive management personnel of certain affiliated companies in Germany and abroad under the terms of the Stock Incentive Plan of the Henkel Group, or
- » 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, while excluding 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 – with the approval of the Shareholders' Committee and of the Supervisory Board – to cancel treasury stock without any further resolution in General Meeting being required.

Treasury stock held by the corporation on December 31, 2008 amounted to 4,834,770 preferred shares. This represents 1.10 percent of the capital stock and a proportional nominal value of 4.8 million euros. Originally, 992,680 shares were purchased in the year 2000, an amount of 808,120 shares were 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 2,652,330 in treasury shares held, with a proportional nominal value of 2.7 million euros (0.61 percent of the capital stock). In 2008, the exercise of options led to a reduction of 196,020 in treasury shares held. The proportional nominal value of the capital stock amounted to 0.2 million euros (0.04 percent). The selling prices were based on the stock market prices prevailing at the time of disposal. Total proceeds on disposal were 5 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 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 increase in the value of the US dollar against the euro, the negative translation difference at December 31, 2008 decreased by 103 million euros compared to December 31, 2007 (2007: negative translation difference increased by 425 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 the employee.

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, the proceeds of the bond issued in 2005 and certain other assets were allocated 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⁾	
	2007	2008	2007	2008	2007	2008
Discount factor	5.3	5.9	5.9	6.4	4.4	5.6
Income trend	3.25	3.25	4.3	4.3	4.1	3.7
Retirement benefit trend	2.0	2.0	4.3	4.3	2.8	3.3
Expected return on plan assets ¹⁾	6.2	6.3	7.0	7.0	5.6	3.9
Expected increases in costs for medical benefits	-	-	9.5	8.5	8.6	9.1

¹⁾ Weighted average

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

Present value of pensions and similar obligations at December 31, 2007

in million euros	Germany	USA	Rest of world	Total
At January 1, 2007	2,072	722	558	3,352
Changes in the Group	-	-	-2	-2
Translation differences	-	-78	-23	-101
Actuarial gains/losses	-158	31	-54	-181
Current service cost	68	14	25	107
Amortization of past service costs	-	-1	1	-
Interest expense	85	40	26	151
Employees' contributions to pension funds	3	-	1	4
Retirement benefits paid out of plan assets	-110	-23	-20	-153
Employer's payments for pensions and similar obligations	-22	-20	-13	-55
Released	-1	-	-3	-4
At December 31, 2007	1,937	685	496	3,118
of which unfunded obligations	122	215	75	412
of which funded obligations	1,815	470	421	2,706

Fair value of plan assets at December 31, 2007

in million euros	Germany	USA	Rest of world	Total
At January 1, 2007	1,690	497	377	2,564
Changes in the Group	-	-	-	-
Translation differences	-	-54	-20	-74
Employer's contributions to pension funds	60	-	25	85
Employees' contributions to pension funds	3	-	1	4
Retirement benefits paid out of plan assets	-110	-23	-20	-153
Expected return on plan assets	104	32	24	160
Actuarial gains/losses	-134	11	-2	-125
At December 31, 2007	1,613	463	385	2,461
Actual return on plan assets	-30	43	22	35

Net pension cost in 2007

in million euros	Germany	USA	Rest of world	Total
Current service cost	68	14	25	107
Amortization of past service costs	-	-1	1	-
Interest expense	85	40	26	151
Expected return on plan assets	-104	-32	-24	-160
Net pension cost	49	21	28	98

The underfunding of the obligations corresponded in 2007 to the reported provisions for pensions and similar obligations.

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

Reconciliation of overfunding/underfunding and reported provisions for pensions and similar obligations as of December 31, 2008

in million euros	Germany	USA	Rest of world	Total
Overfunding/underfunding of obligations	–315	–367	–121	–803
Plan assets reported as net assets	–	–	–7	–7
Amount not recognized due to asset ceiling	–	–	–17	–17
Past service cost	–	–6	–	–6
Recognized amount	–315	–373	–145	–833

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 recognized income and expense in accordance with IAS 19.93B. As of December 31, 2008, accumulated actuarial gains and losses of 820 million euros had been offset against retained earnings.

Of the amounts added to the provision in 2008, 90 million euros (2007: 107 million euros) is included in operating profit (pension costs as part of payroll costs, [AR page 117](#)) and an expense of –13 million euros (2007: gain of 9 million euros) in financial result ([AR page 88](#)). The expenses shown in operating profit and all the releases from provisions are allocated by function, depending on the spheres of activity of the employees. The employer's contributions in respect of state pension provisions are included as "Social security costs and staff welfare costs" under Note 43. In 2008, contributions to plan assets amounted to 157 million euros (2007: 85 million euros).

Analysis of plan assets

in million euros	Dec. 31, 2007		Dec. 31, 2008	
	Fair value	in %	Fair value	in %
Investment funds				
Invested in shares	931	37.8	441	18.1
Invested in bonds	552	22.5	939	38.4
Invested in investment funds	470	19.1	125	5.1
Invested in cash	328	13.3	616	25.2
Invested in sundry assets	19	0.8	33	1.4
Other assets	159	6.4	190	7.7
Cash	2	0.1	101	4.1
Total	2,461	100.0	2,445	100.0

At December 31, 2008, other assets making up the plan assets included the present value of a non-current receivable of 43 million euros (2007: 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 107 million euros (2007: 113 million euros) against Cognis for indemnification of pension obligations.

In 2008, Henkel AG & Co. KGaA waived indemnification out of the assets held by Henkel Trust e.V. with respect to payments made to pensioners. If these amounts had been indemnified, an amount of about 105 million euros would have been paid out of the assets held by Henkel Trust e.V. 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, 2007			Dec. 31, 2008		
	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	10	0	1	9
Decrease in medical costs of one percent	0	-1	-9	0	-1	-8

Additional information

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

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

(29) Long-term provisions

Changes in 2007

in million euros	Balance Jan. 1, 2007	Other changes	Utilized	Released	Added	Balance Dec. 31, 2007
Income tax provisions	168	-33	116	1	82	100
Sundry long-term provisions	116	3	21	-	21	119
"Advanced Restructuring"	10	-10	-	-	-	-
Total	294	-40	137	1	103	219

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

The amounts recognized as long-term provisions are the best estimates of the expenditure 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 augmenting 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, 2007	Dec. 31, 2008
Sales	8	10
Personnel	38	73
Production and engineering	50	20
Various other obligations	23	24
Total	119	127

(30) Long-term borrowings

The maturities of these obligations at December 31, 2007 were as follows:

Analysis

in million euros	Residual term		Dec. 31, 2007 Total
	More than 5 years	Between 1 and 5 years	Dec. 31, 2007 Total
Bonds <i>(of which amounts secured)</i>	2,218	2	2,220 (9)
Bank loans and overdrafts ¹⁾ <i>(of which amounts secured)</i>	10	26	36 (28)
Other financial liabilities <i>(of which amounts secured)</i>	–	48	48 (–)
Total	2,228	76	2,304

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

The bonds issued by Henkel AG & Co. KGaA at December 31, 2007 included the following:

Bonds

in million euros	Issued by	Type	Nominal value	Book value	Market value ¹⁾	Interest rate ²⁾	Interest fixed
Henkel AG & Co. KGaA		Bond	1,000	962	965	4.2500	until 2013 ³⁾
<i>Interest rate swap (3-month Euribor +0.405%)</i>		Receiver swap	1,000	–35	–35	5.2891	3 months
Henkel AG & Co. KGaA		Hybrid bond	1,300	1,249	1,179	5.3750	until 2015 ⁴⁾
<i>Interest rate swap (3-month Euribor +1.80%)</i>		Receiver swap	650	–48	–48	6.4772	3 months

¹⁾ Market value of the bonds derived from the stock market price at December 31, 2007

²⁾ Interest rate on December 31, 2007

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, 2008 (fair value hedge)

⁴⁾ Fixed-rate interest of bond coupon: 5.375 percent, 50 percent converted using interest rate swaps into a floating interest rate, interest rate to be fixed next on February 25, 2008 (fair value hedge)

Maturities of long-term borrowings at 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 <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

The bonds issued by Henkel AG & Co. KGaA at December 31, 2008 were as follows:

Bonds

in million euros

Issued by	Type	Nom. value	Book value	Market value 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⁾
	Receiver swap	1,000	26	26	3.8931	3 months
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⁾
	Receiver swap	650	37	37	5.8212	3 months
	Receiver swap	650	2	2	3.6970	3 months

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)

The 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 1.3 billion euro subordinated hybrid bond issued by Henkel AG & Co. KGaA in November 2005 to finance a large part of the pension obligations in Germany matures in 99 years in 2104. Under the terms of the bond, the coupon for the first ten years is 5.375 percent. After that period, from November 25, 2015, it will be possible to redeem the bond. 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 ordinary 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 the definition. On the basis of the cash flow calculated at December 31, 2008, the percentage was 22.54 percent (2007: 80.28 percent).

(31) Non-current financial liabilities

Non-current financial liabilities comprise amounts due to employees of 77 million euros (2007: 61 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 accounting base in the consolidated balance sheet and the tax base used by the individual companies included in the consolidation to calculate their taxable profits (Note 9).

(34) Current provisions**Changes in 2007**

in million euros	At Jan. 1, 2007	Other changes	Utilized	Released	Added	At Dec. 31, 2007
Income tax provisions	108	28	115	34	165	152
Sundry current provisions	839	12	750	35	689	755
“Advanced Restructuring”	45	10	47	–	–	8
Total	992	50	912	69	854	915

Other tax provisions of 4 million euros were reclassified in sundry current provisions.

Changes in 2008

in million euros	At Jan. 1, 2008	Other changes	Utilized	Released	Added	At Dec. 31, 2008
Income tax provisions	152	48	86	1	230	343
Sundry current provisions	755	27	616	53	572	685
“Advanced Restructuring”	8	–	8	–	–	–
“Global Excellence”	–	–	–	–	129	129
Combination of the Adhesive Technologies businesses	–	–	–	–	52	52
Total	915	75	710	54	983	1,209

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

Please refer to Note 29 for further details relating to the items “Global Excellence” and “Combination of the Adhesive Technologies businesses”.

Analysis of sundry current provisions by function

in million euros	Dec. 31, 2007	Dec. 31, 2008
Sales	175	212
Personnel	330	323
Production and engineering	28	2
Various other obligations	222	148
Total	755	685

(35) Short-term borrowings**Analysis**

in million euros	Dec. 31, 2007 Total	Dec. 31, 2008 Total
Bond interest liabilities	31	31
Commercial papers ¹⁾ <i>(of which secured)</i>	10 (10)	175 (175)
Loans from employee welfare funds of the Henkel Group	2	–
Bank loans and overdrafts <i>(of which secured)</i>	368 (228)	1,099 (617)
Other financial liabilities	427	512
Total	838	1,817

¹⁾ From the euro and US dollar Commercial Paper Program (total amount 2.1 billion euros)

Short-term bank loans from the so-called bridge loan are set off against liquid funds where the deposit and the loan are with the same lender and are of similar maturity. The short-term borrowings set off amounted to 1,057 million euros.

Other financial liabilities comprise mainly interest-bearing loans. 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, 2007 Total	Dec. 31, 2008 Total
Amounts due to non-consolidated affiliated companies	16	20
Derivatives with negative fair values	149	186
Sundry current financial liabilities <i>(of which secured)</i>	81 (–)	66 (–)
Total	246	272

Sundry current financial liabilities include the following:

- » Amounts due to customers of 16 million euros (2007: 27 million euros)
- » Commission payable of 3 million euros (2007: 3 million euros)
- » Amounts due to employees of 36 million euros (2007: 42 million euros)

(38) Other current liabilities

Other current liabilities include sundry deferred income and the following:

- » Liabilities in respect of social security of 26 million euros (2007: 22 million euros)
- » Advance payments received of 4 million euros (2007: 3 million euros)
- » Liabilities relating to employees' deductions of 41 million euros (2007: 40 million euros)
- » Other tax liabilities of 117 million euros (2007: 94 million euros)

(39) Contingent liabilities

Analysis

in million euros	Dec. 31, 2007	Dec. 31, 2008
Bills and notes discounted	1	–
Liabilities under guarantee and warranty agreements	12	10

(40) Other financial commitments

Payment commitments 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, 2008, they were due for payment as follows:

Rent, leasehold and lease commitments

in million euros	Dec. 31, 2007	Dec. 31, 2008
Due in the following year	35	49
Due within 1 to 5 years	90	88
Due after 5 years	3	16
Total	128	153

In the course of the 2008 fiscal year, 37 million euros became due for payment under operating leases (2007: 13 million euros).

The order commitments for property, plant and equipment amounted to 51 million euros at the end of 2008 (2007: 42 million euros) and the purchase commitments from toll manufacturing contracts amounted to 3 million euros (2007: 15 million euros).

Payment commitments under the terms of agreements for capital increases and share purchases signed prior to December 31, 2008 amounted to 19 million euros (2007: 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 fiscal year, the dividend was increased for ordinary and preferred shares. 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 (senior and hybrid bonds) serve to cover long-term financing requirements.

Our financial management is based on the key performance indicators set out in our financial strategy. The interest coverage ratio in 2008 was 4.8 (2007: 9.4), while operating debt coverage was 44.1 percent (2007: 74.3 percent). The equity ratio was 40.6 percent (2007: 43.7 percent) and gearing was 0.72 (2007: 0.41). For further details, see the financial ratios section in the Group management report ([AR page 45](#)).

Due to the international nature of our 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 therefore all transactions with financial derivatives and other financial instruments. Trading, treasury control and settlement (front, middle and back offices) are separated both physically and in terms of organization. The parties to the contracts are German and international banks which Henkel monitors regularly, in accordance with Corporate Treasury guidelines, for creditworthiness and the quality of their quotations. Financial derivatives are used to manage currency exposure and interest rate risks in connection with operating activities and the resultant financing requirements, again in accordance with the Treasury guidelines. Financial derivatives are entered into exclusively for hedging purposes.

The currency and interest rate risk management of the Group is supported by an integrated treasury system, which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, "integrated" means that the entire process from the initial recording of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multi-bank dealing platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are integrated into the treasury system by data transfer. As a result, it is possible to retrieve and measure at any time all currency and interest rate risks across the Group and all derivatives entered into to hedge the exposure to these risks. The treasury system supports the use of various risk concepts so that, 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. Marketable securities which are managed on a portfolio basis, and other investments quoted on the stock exchange, are categorized and recognized at fair value through profit or loss in accordance with IAS 39. Changes in fair value are recognized in financial items in the 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 value of other marketable securities and other investments cannot be reliably determined, they are subsequently measured at amortized cost. Shares in affiliated companies are measured at amortized cost as their fair value cannot be reliably determined. These are also included in the available-for-sale category. We have no financial assets under the "held to maturity" category. 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, 2007	Dec. 31, 2008
Marketable securities		
– at fair value through profit or loss	–	–
– at fair value recognized in equity	11	19
Other investments/Shares in affiliated companies	33	23
– at fair value through profit or loss	5	–
– at amortized cost	28	23

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, AR page 106), 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 fair values of 65 million euros (2007: negative fair values of -83 million euros). The gain or loss on remeasuring the derivatives at fair value based on market interest rate risk (2008: gain of 148 million euros, 2007: loss of -38 million euros) and the gain or loss on the hedged bonds (2008: loss of -142 million euros, 2007: gain of 34 million euros) have both been included in financial items in the 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 in the consolidated statement of income. If a firm commitment or an expected and highly probable future transaction results in the recognition of an asset or a liability, the accumulated gains or losses on the hedging instrument that were recognized directly in equity are included in the initial measurement of the asset or liability. Otherwise, the amounts recognized directly in equity are included in the statement of income in those reporting periods in which the hedged transaction impacts the statement of income. In the past fiscal year, no cash flow hedges were entered into. 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
2008	-95	-170	-	-265
2007	-	-95	-	-95

The hedge of a portion of the purchase price payable in pounds sterling (GBP) for the National Starch businesses, which was taken out in 2007 and arose from the back-to-back agreement with Akzo Nobel N.V., was terminated on the payment date of April 3, 2008. The hedge result was recognized directly in equity.

Hedge of a net investment in a foreign entity: Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. This is the case with forward exchange contracts that are used to hedge the exposure to currency translation risks in foreign entities.

In the past fiscal year, hedges of a net investment in a foreign entity were entered into and the associated gains or losses on remeasurement, after taking deferred tax into account, together with any gains or losses on the translation of the financial statements of foreign companies, were recognized directly in equity. As in 2007, no hedges of a net investment in a foreign entity were transferred from equity to the statement of income, nor were any ineffective portions of hedges included in the statement of income.

**Hedge 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
2008	-17	70	-	53
2007	-20	3	-	-17

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.

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	EUR		USD		JPY		GBP		
	Maturities	2007	2008	2007	2008	2007	2008	2007	2008
3 months		4.65	2.95	4.85	1.75	0.93	0.95	5.95	2.80
6 months		4.63	2.93	4.63	1.70	0.97	1.16	5.83	2.76
1 year		4.69	3.00	4.26	2.35	1.05	1.35	5.58	2.93
2 years		4.46	2.64	3.81	1.40	0.92	0.74	5.21	2.60
5 years		4.49	3.20	4.22	2.05	1.19	0.91	5.08	3.18
10 years		4.68	3.75	4.77	2.51	1.69	1.24	4.99	3.49

In measuring derivative financial instruments, the payment 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 2008 of 1 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.

The following positions were held at the balance sheet date:

Derivative financial instruments

At December 31	Nominal value		Positive fair value		Negative fair value	
	in million euros	2007	2008	2007	2008	2007
Forward exchange contracts ¹⁾	7,087	5,457	56	240	-147	-186
(of which for hedging loans within the Group)	(2,115)	(4,013)	(39)	(213)	(-5)	(-97)
Currency options ¹⁾	-	25	-	1	-	-
Interest rate swaps ²⁾	1,650	2,300	-	65	-83	-
(of which designated for hedge accounting)	(1,650)	(2,300)	-	(65)	(-83)	(-)
Other interest rate hedging instruments ¹⁾	5,563	901	3	-	-2	-
(of which designated for hedge accounting)	(-)	(-)	-	(-)	-	(-)
Total derivative financial instruments	14,300	8,683	59	306	-232	-186

¹⁾ Maturity period < 1 year

²⁾ Maturity period > 1 year

Most of the forward exchange contracts and currency options hedge risks arising from trade accounts receivable and Group financing in US dollars.

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. Generally speaking, Henkel is confronted by a continuing process of concentration and consolidation on the customer side, which is expressed accordingly in receivables from individual customers.

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

As regards financial investment and derivatives trading with German and international banks, Henkel only enters into transactions with counterparties of the highest financial standing. Financial investment is generally 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. In addition to ratings, certain other indicators such as the pricing of credit default swaps (CDS) by the banks are applied in determining the limits.

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.

The book value of receivables and loans which were potentially overdue or impaired, for which new due dates have been negotiated, is less than 1 million euros, as in the previous year.

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, 2008	502	52	16	5	575
At December 31, 2007	312	42	15	5	374

In 2008, specific allowances for bad debts of 41 million euros (2007: 24 million euros) and general allowances for bad debts of 6 million euros (2007: 3 million euros) were made in respect of loans and receivables.

Liquidity risk

The liquidity risk of the Henkel Group can be regarded as very low, because of the use of long-term financing instruments and the availability of additional liquidity reserves. The Group has pledged credit lines of 2.1 billion euros at its disposal to ensure its liquidity and financial flexibility at all times. These credit lines were opened to secure the Commercial Paper Program. To finance the acquisition of the Adhesives and Electronic Materials businesses of National Starch, the Henkel Group has already received loan pledges amounting to 1.6 billion euros as of December 31, 2008. The individual subsidiaries of the Henkel Group additionally have bilateral loan pledges of 0.6 billion euros at their disposal.

Our credit rating is regularly monitored by independent rating agencies.

Cash flows from financial liabilities

in million euros

	Dec. 31, 2007 Book value	Residual term			Dec. 31, 2007 Total cash flow
		Up to 1 year	Between 1 and 5 years	More than 5 years	
Bond ¹⁾	2,251	143	451	2,560	3,154
Commercial papers ²⁾	10	10	–	–	10
Bank loans and overdrafts	404	374	32	12	418
Loans from employee welfare funds of the Henkel Group	2	2	–	–	2
Trade accounts payable	1,477	1,477	–	–	1,477
Interest-bearing loans from third parties	473	446	52	–	498
Sundry financial instruments ³⁾	163	101	48	14	163
Original financial instruments	4,780	2,553	583	2,586	5,722
Derivative financial instruments	232	164	47	5	216
Total	5,012	2,717	630	2,591	5,938

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

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	
Bond 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
Loans from employee welfare funds of the Henkel Group	–	–	–	–	–
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

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 significant 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 starting on [AR page 69](#).

The following table shows the value-at-risk analysis of the transaction risk of the Henkel Group at the balance sheet date. 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 on the basis of historical data. The value-at-risk analysis is based on the operating book positions and budgeted positions in foreign currency, with a forecasting horizon of up to nine months.

Value-at-risk

in million euros	Dec. 31, 2007	Dec. 31, 2008
After hedging	19	40

The amounts shown represent the maximum expected risk of loss in a reporting 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. The main influence is exerted by the Japanese yen, the British pound, the US dollar and the Ukrainian Hrywnja.

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 derivative financial instruments. 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 essentially consists of fixing interest rates over the short term with pegging periods of less than one year. To this end, the interest management team applies strategies involving the use of long-term interest-bearing instruments in order to secure the liquidity of Henkel at all time while pegging short-term 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, 2007	Dec. 31, 2008
Based on an interest rate rise of 100 basis points	8	38
of which		
Cash flow through profit or loss	8	38
Fair value through profit or loss	–	–
Cash flow through equity	–	–
Fair value through equity	–	–

The calculation of the interest rate risk is based on a cash flow sensitivity analysis. This analysis examines all the main financial instruments which attract interest at a variable rate as of the balance sheet date. Fixed-rate instruments and interest rate 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. Interest rate risks arise mainly from interest-bearing financial instruments in euros and US dollars.

Supplementary Information on the Consolidated Statement of Income/Balance Sheet

(43) Payroll cost¹⁾

Payroll cost

in million euros	2007	2008
Wages and salaries	1,885	1,949
Social security contributions and staff welfare costs	337	351
Pension costs	126	136
Total	2,348	2,436

¹⁾ Excluding personnel-related restructuring charges of 343 million euros in 2008

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 in Henkel preferred shares, which may be exercised within a period not exceeding five years once a vesting period of three years has elapsed. 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 with 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 German and foreign affiliated companies, on condition that they make a direct investment of three preferred shares for each option right.

On February 19, 2004, IFRS 2 (Share-based Payment) was issued. We have applied this standard effective January 1, 2005. As a result, 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 fiscal years from 2005 onward, 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 expired for all tranches. Because the exercise period for the first tranche expired on July 10, 2008, option rights that were not exercised have lapsed. The table overleaf also shows the expense for the period resulting from the valuation of each tranche issued.

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	1st tranche	2nd tranche	3rd tranche	4th tranche	5th tranche	Total
At January 1, 2008	21,997	26,814	41,444	55,891	9,000	155,146
expressed in preferred shares	197,970	241,325	372,995	838,370	189,000	1,839,660
Options granted	210	105	315	105	—	735
expressed in preferred shares	1,890	945	2,835	1,575	—	7,245
Options exercised ¹⁾	12,967	2,100	2,505	2,525	—	20,097
expressed in preferred shares	116,700	18,900	22,545	37,875	—	196,020
Options forfeited	210	630	1,140	825	—	2,805
expressed in preferred shares	1,890	5,670	10,260	12,375	—	30,195
Lapsed options	9,030	—	—	—	—	9,030
expressed in preferred shares	81,270	—	—	—	—	81,270
At December 31, 2008	—	24,189	38,114	52,646	9,000	123,949
expressed in preferred shares	—	217,700	343,025	789,695	189,000	1,539,420
of which held by the Management Board	—	1,780	8,650	9,050	9,000	28,480
expressed in preferred shares	—	16,020	77,850	135,750	189,000	418,620
of which held by other senior executives	—	22,409	29,464	43,596	—	95,469
expressed in preferred shares	—	201,680	265,175	653,945	—	1,120,800
Payroll cost 2008	in million euros				—	—
Payroll cost 2007	in million euros	—	—	—	3.6	0.1
						3.7

¹⁾ Average price at exercise date = 28.19 euros

At December 31, 2008, there is a provision of 4.0 million euros (2007: 16.8 million euros) in respect of the fourth tranche. The amount written back of 12.8 million euros had the effect of increasing earnings for the period. The intrinsic value of the exercisable options in the fourth tranche at the end of the reporting period is 2.1 million euros (2007: 16.1 million euros).

The costs are calculated on the basis of 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

	in euros	At				
		On issue 1st tranche	On issue 2nd tranche	On issue 3rd tranche	Dec. 31, 2008 4th tranche	On issue 5th tranche
Exercise price (before share split)	in euros	63.13	71.23	74.67	57.66	71.28
Exercise price (after share split)	in euros	21.04	23.74	24.89	19.22	23.76
Expected volatility of the preferred share price	in %	35.0	33.1	32.4	29.8	26.6
Expected volatility of the index	in %	19.7	20.7	22.4	—	18.6
Expected lapse rate	in %	3	3	3	—	—
Risk-free interest rate	in %	5.19	4.18	4.78	2.12	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 first tranche ended on July 10, 2003, that of the second tranche 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 first three 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 of nine shares per option for the first tranche was made solely as a result of the Henkel preferred share outperforming the comparative index (relative performance). The allocation for the fourth tranche was made solely as a result of the absolute performance. The absolute performance targets were not met for the first three 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 first tranche lapsed on July 10, 2008 as per the prescribed deadline. The outstanding option rights for tranches two to five may be exercised at any time, except during blocked periods which cover the four weeks prior to the reporting dates of the corporation.

Global Cash Performance Units (CPU) plan

Following 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, since 2004, 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 take part 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 first tranche, which was issued in 2004, became due for payment in July 2007 and the second, issued in 2005, in July 2008. Across the world, at December 31, 2008, the CPU Plan comprised 425,941 CPUs issued in the third tranche in 2006 (expense: 3.2 million euros), 378,814 CPUs from the fourth tranche issued in 2007 (expense: 2.8 million euros) and 494,761 CPUs from the fifth tranche issued in the year under review (expense: 3.7 million euros). The corresponding provision amounted to 18.8 million euros (2007: 28.4 million euros).

Cash Performance Units program

For members of the Management Board, the Stock Incentive Plan was superseded in 2005 by a new program. In accordance with the program, 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 – per financial year (= tranche). On expiry of the performance period, the number and the value of the Cash Performance Units 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 Cash Performance Units (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 fiscal 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 fiscal year prior to the year of issue is compared with the earnings per preferred share of the second fiscal 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 audited, approved and adopted consolidated financial statements of the relevant fiscal years, adjusted for exceptional items. The monetary value per Cash Performance Unit 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 2006, 2007 and 2008 tranches were 29.35 euros, 39.04 euros and 33.72 euros respectively. We have based the measurement of the provision for the tranche issued in 2008 on achieving medium targets; the pro rata provisions for the current tranches issued in the previous years were adjusted on the basis of current figures. This results in an expense of 0.6 million euros in the fiscal year. The provision at December 31, 2008 for all tranches issued is 1.4 million euros (2007: 4.1 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

	2007	2008
Production and engineering	24,426	26,230
Marketing, selling and distribution	16,603	17,235
Research and development	2,794	2,942
Administration	8,480	9,106
Total	52,303	55,513

(45) Value added statement

Value added statement

in million euros	2007	in %	2008	in %
Sales	13,074	98.1	14,131	90.6
Other income	247	1.9	1,458	9.4
Total sales/income	13,321	100.0	15,589	100.0
Other charges				
Cost of materials	5,656	42.5	6,598	42.3
Amortization/depreciation of non-current assets	337	2.5	546	3.5
Other expenses	3,415	25.6	3,973	25.5
Value added	3,913	29.4	4,472	28.7
Paid to				
employees	2,348	60.0	2,436	54.4
central and local government	355	9.1	437	9.8
Providers of capital				
interest expense	269	6.9	366	8.2
shareholders	227	5.8	227	5.1
minority shareholders	20	0.5	12	0.3
Reinvested in the Group	694	17.7	994	22.2

(46) 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 and oral care products, 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 items "Global Excellence" and "Combination of the Adhesive Technologies businesses" have been disclosed under the Corporate segment as these are both centrally implemented, monitored and controlled programs; however, in the consolidated 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, 2008	
	Annual average ¹⁾ 2008	Dec. 31, 2008		
Goodwill at book value	5,318	6,123	6,123	Goodwill at book value
Other intangible assets and property, plant and equipment (total)	4,643	4,630	4,630	Other intangible assets and property, plant and equipment (total)
			24	Financial assets
			305	Deferred tax assets
Inventories	1,645	1,482	1,482	Inventories
Trade accounts receivable from third parties	2,092	1,847	1,847	Trade accounts receivable from third parties
Intra-Group trade accounts receivable	985	991	—	
Other assets and tax refund claims ²⁾	451	432	1,212	Other assets and tax refund claims
			338	Liquid funds/Marketable securities
			113	Assets held for sale
Operating assets (gross)	15,134	15,505	16,074	Total assets
– Operating liabilities	4,269	4,185		
of which				
Trade accounts payable to third parties	1,903	1,678	1,678	Trade accounts payable to third parties
Intra-Group trade accounts payable	985	991		
Other provisions and other liabilities ²⁾	1,381	1,516	3,026	Other provisions and other liabilities
Net operating assets	10,865	11,320		
– Goodwill at book value	5,318	—		
+ Goodwill at acquisition cost ³⁾	5,774	—		
Capital employed	11,321	—		

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 3.79b

(47) Earnings per share

The Stock Incentive Plan (Note 43, **AB** starting on page 117) currently results in a dilution of earnings per ordinary share and per preferred share amounting to 2 eurocents.

Earnings per share

in million euros (rounded)	2007	2008
Net earnings after minority interests	921	1,221
Dividends, ordinary shares	132	132
Dividends, preferred shares	92	92
Total dividends	224	224
Retained profit per ordinary share	419	598
Retained profit per preferred share	278	399
Retained profit	697	997
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	1.61	2.30
EPS per ordinary share in euros	2.12	2.81
Number of outstanding preferred shares ²⁾	172,951,042	173,238,398
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	1.61	2.30
EPS per preferred share in euros	2.14	2.83
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	1.61	2.28
EPS dilution per ordinary share in euros	2.12	2.79⁵⁾
Number of potential outstanding preferred shares ²⁾	173,371,289	173,575,794
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	1.60	2.28
Diluted EPS per preferred share in euros	2.13	2.81⁵⁾

¹⁾ See Group management report, page 19: Corporate Governance, Division of Capital Stock, Shareholder Rights

²⁾ Weighted annual average of preferred shares

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)

(48) Cash flow statement

Cash flow from investing activities/acquisitions includes under the heading "Purchase of financial assets/acquisitions" funds used to make acquisitions of 3,708 million euros (2007: 7 million euros). Investments in acquisitions comprised 7 million euros attributable to the Laundry & Home Care business sector, 17 million euros attributable to Cosmetics/Toiletries and 3,684 million euros attributable to Adhesive Technologies.

Dividends and interest paid and received include dividends received from Ecolab Inc., St. Paul, Minnesota, USA of 19 million euros (2007: 29 million euros). Interest payments include contributions to the contractual trust arrangement (CTA) (262 million euros; 2007: 42 million euros). 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.

(49) 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 19, 2008 represented in total 52.18 percent of the voting rights (135,570,762 votes) in Henkel AG & Co. KGaA and is held by:

- » 64 members of the families of the descendants of Fritz Henkel, the company's founder
- » Four charitable 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 Law (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 15,132,417 ordinary shares in Henkel AG & Co. KGaA, representing a rounded percentage of 5.825 percent. No other party to the share-pooling agreement has a notification obligation if the threshold of 3 percent or more of the total voting rights in Henkel AG & Co. KGaA is reached or exceeded, even after adding voting rights expressly granted under the terms of usufruct agreements.

The authorized representative of the parties to the Henkel share-pooling agreement is Mr. Albrecht Woeste, 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) No. 6 WpHG.

Members of the families of descendants of the company's founder Fritz Henkel, and charitable foundations under their sphere of influence, who/which 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 5.11 percent (2007: 4.18 percent). The average total amount of capital advanced to the Henkel Group in fiscal 2008 was 530 million euros (2007: 446 million euros), while the balance at December 31, 2008 was 512 million euros (December 31, 2007: 472 million euros).

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 4.9 million euros (2007: 3.2 million euros), while the balance at December 31, 2008 was 3.9 million euros (December 31, 2007: 6 million euros), carrying an average interest rate of 5.13 percent (2007: 4.16 percent).

Henkel's investment in Ecolab Inc., St. Paul, Minnesota, USA, was sold on November 18/19, 2008. Some companies in the Henkel Group and Ecolab supplied goods and services to each other on prevailing market terms in the course of their normal business activities.

(50) Remuneration of the corporate bodies

The total remuneration of the members of the Supervisory Board and of the Shareholders' Committee of Henkel AG & Co. KGaA amounted to 1,231k euros plus value-added tax (2007: 1,226k euros plus value-added tax) and 2,303k euros (2007: 2,260k euros) respectively. The total remuneration of the former Management Board of Henkel KGaA and members of the Management Board of Henkel Management AG amounted to 13,270k euros (2007: 16,040k euros). For further details regarding the emoluments of the corporate bodies, see the remuneration report starting on AR page 22.

(51) Declaration of compliance with the Corporate Governance Code

In February 2008, the then Management Board and the Supervisory Board and the Shareholders' Committee approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code as required by Clause 161 of the German Joint Stock Corporation Act (AktG). The declaration is permanently available to shareholders on the company website: www.henkel.com/ir

(52) 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.

(53) 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.	100.00
Australia	Henkel Australia Pty. Ltd.	100.00
Austria	Henkel Central Eastern Europe GmbH	100.00
Belgium	Henkel Belgium N.V.	100.00
Brazil	Henkel Ltda.	100.00
Canada	Henkel Canada Corporation	100.00
	Henkel Consumer Goods Canada Inc.	100.00
China	Henkel (China) Co. Ltd.	97.49
	Henkel Loctite (China) Co. Ltd.	100.00
Czech Republic	Henkel CR spol.s.r.o.	100.00
Egypt	Henkel Trading Egypt SA	100.00
France	Henkel France S.A.	100.00
	Henkel Technologies France SAS	100.00
Germany	Schwarzkopf & Henkel Production	
	Europe Holding GmbH & Co. KG	100.00
Great Britain	Henkel Ltd.	100.00
Hungary	Henkel Magyarország Kft	100.00
India	Henkel Marketing India Ltd.	48.94
Ireland	Loctite (Overseas) Ltd.	100.00
Italy	Henkel Italia S.p.A.	100.00
Japan	Henkel Japan Ltd.	100.00
	Henkel Technologies Japan Ltd.	100.00
Mexico	Henkel Capital S.A. de C.V.	100.00
Netherlands	Henkel Nederland B.V.	100.00
Poland	Henkel Polska Sp. z o.o.	100.00
Romania	Henkel Romania Srl	100.00
Russia	OAO Henkel ERA	100.00
	OOO Rushenk	100.00
	ZAO Schwarzkopf & Henkel	100.00
Serbia	Henkel Merima d.o.o.	99.60
Slovak Republic	Henkel Slovensko spol. s.r.o	100.00
South Korea	Henkel Korea Ltd.	100.00
Spain	Henkel Ibérica S.A.	100.00
Sweden	Henkel Norden AB	100.00
Switzerland	Henkel & Cie. AG	100.00
Turkey	Türk Henkel Kimya Sanayi ve Ticaret A.S.	100.00
Ukraine	Henkel Bautechnik (Ukraine) TOB	100.00
	Henkel Ukraine TOW	100.00

		Share in percent
USA	Henkel Consumer Goods, Inc.	Dover 100.00
	Henkel Corporation	Wilmington 100.00
	Henkel Corporation Finance, Inc.	Wilmington 100.00
	Henkel of America, Inc.	Wilmington 100.00
	Indopco Inc.	Sacramento 100.00
	National Starch & Chemical Investment Holding Corporation	Wilmington 100.00
	Pure & Natural Company	Phoenix 100.00
	The Dial Corporation	Wilmington 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 48.94
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	Schönefeld 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
	Fix Point Vertriebs GmbH	Dinslaken 73.00
	Forstverwaltung Brannenburg Geschäftsführungs-GmbH	Düsseldorf 100.00
	Forstverwaltung Brannenburg GmbH & Co. OHG	Brannenburg 100.00
	Hans Schwarzkopf & Henkel Verwaltungs-GmbH	Grünwald 100.00
	Henkel Erste Verwaltungsgesellschaft mbH	Düsseldorf 100.00
	Henkel Holding Verwaltungs-GmbH	Düsseldorf 100.00
	Henkel Wasch- und Reinigungsmittel GmbH	Düsseldorf 100.00
	Henkel Zweite Verwaltungsgesellschaft mbH	Düsseldorf 100.00
	Indola GmbH	Hamburg 100.00

		Share in percent
Germany (cont.)	MATERNA Grundstücks-Vermietungsgesellschaft mbH & Co.	
	Objekt Reisholz KG	Düsseldorf 49.00
	Phenion GmbH & Co. KG	Düsseldorf 100.00
	Phenion Verwaltungs GmbH	Düsseldorf 100.00
	Schwarzkopf & Henkel GmbH	Düsseldorf 100.00
	Schwarzkopf & Henkel Production Management GmbH	Düsseldorf 100.00
	SusTech GmbH & Co. KG	Darmstadt 100.00
	SusTech Verwaltungs GmbH	Darmstadt 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
Russia	OOO Henkel Rus	Moscow 100.00
Slowenia	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	Purbond International Holdings Ltd.	Hatfield 50.00
	Ten Lifestyle Management Ltd.	London 36.72
Guatemala	Tanques del Atlántico S.A.	Guatemala City 30.00
Indonesia	PT Dongsung NSC	Tangerang 49.00
Mexico	Hysol Indael de México S.A. de C.V.	Mexico City 49.00
Saudi Arabia	Ashwa Technologies Ltd.	Jeddah 50.00
	Saudi Arabian Adhesives Factory Ltd.	Riyadh 50.00
Switzerland	Purbond AG	Neukirch 50.00
USA	AMT Capital L.P.	Dallas 20.90
	Purbond Inc.	New Castle 50.00

(54) Auditors' fees and services

The fees charged for the services of the auditors KPMG in the 2007 and 2008 fiscal years were as follows:

Type of fee

in million euros

	2007	2008
Audit (including outlays)	8.1	11.1
Other audit-related services	0.2	1.7
Tax advisory services	0.1	3.1
Other services	0.1	1.0
Total	8.5	16.9

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, and the audit of the individual company financial statements of Henkel AG & Co. KGaA and its affiliated companies as required by law. The increase in the year under review is due to expansion of the scope of consolidation resulting from the acquisition of the National Starch businesses.

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 audit of the opening balance sheets of April 3, 2008 for the National Starch businesses.

Fees for 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, extensive 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, again with significant work relating to the National Starch businesses.

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 548,737,876.54 euros for the year ended December 31, 2008 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)	321,815,656.54 euros
	<u>548,737,876.54 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 30, 2009

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	2007	2008
Sales	3,132	3,099
Cost of sales	-2,135	-2,217
Gross profit	997	882
Selling, research and administrative expenses	-1,233	-1,330
Other income (net of other expenses)	373	726
Operating profit	137	278
Financial result	440	348
Profit on ordinary activities	577	626
Change in special accounts with reserve element	19	44
Earnings before tax	596	670
Taxes on income	-13	-24
Net earnings	583	646
Profit brought forward	152	220
Transfer to retained earnings	-291	-323
Transfer from reserve for treasury stock	-	6
Unappropriated profit²⁾	444	549

Balance sheet

in million euros	2007	2008
Intangible assets and property, plant and equipment	687	674
Financial assets	7,681	6,857
Non-current assets	8,368	7,531
Inventories	210	213
Receivables and miscellaneous assets/		
Deferred charges	2,719	4,528
Marketable securities	119	109
Liquid funds	919	40
Current assets	3,967	4,890
Total assets	12,335	12,421
Shareholders' equity	4,328	4,750
Special accounts with reserve element	227	183
Provisions	2,513	2,590
Liabilities, deferred income and accrued expenses	5,267	4,898
Total equity and liabilities	12,335	12,421

¹⁾ The full financial statements of Henkel AG & Co. KGaA with the auditors' 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: 444,192,003.61 euros for 2007 and 548,737,876.54 euros for 2008

Statement by the Personally Liable Partner

The annual financial statements, the consolidated financial statements and the management reports for Henkel AG & Co. KGaA and the Group have been prepared by the Management Board of Henkel Management AG, the personally liable managing partner of Henkel AG & Co. KGaA, which is responsible for the content and objectivity of the information contained therein.

The Group financial reports have been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union.

The Management Board has taken steps to ensure the integrity of the reporting process and compliance with the relevant legal regulations by establishing effective internal control systems at the companies which are included in the consolidated financial statements.

Appropriate training is provided to make sure that the employees responsible are suitably qualified to meet the required standards. Staff training is centered on the corporation's mission statement and principles and strategies developed within the corporation. Compliance with these principles is continually monitored by the corporate management. Compliance with regulations and the reliability and functional efficiency of the control systems are kept under constant review across the Group by the Internal Audit department.

These measures, coupled with reporting procedures based on standard guidelines throughout the Group, ensure that the financial records properly reflect all business transactions. They also enable the corporate management to recognize changes in business circumstances and the ensuing risks to assets and financial arrangements as they occur.

The risk management systems in place for Henkel AG & Co. KGaA and the Henkel Group ensure, in accordance with the requirements of company law, that any developments which could endanger the future of Henkel AG & Co. KGaA or of the Henkel Group are recognized in good time and that appropriate measures can be taken where necessary. They also provide the foundation for the accuracy of information disclosed in the consolidated financial statements and Group management report and in the individual company financial statements incorporated therein.

The Management Board is committed to delivering a steady increase in shareholder value. The Group is managed on principles of sustainable development in the interests of shareholders and in full awareness of its responsibility toward employees, society and the environment in every country in which Henkel operates.

In February 2008, as required by Clause 161 of the German Joint Stock Corporation Act (AktG), the then Management Board of Henkel KGaA, the Supervisory Board and the Shareholders' Committee approved a joint declaration of compliance with the recommendations of the German Corporate Governance Code.

KPMG AG Wirtschaftsprüfungsgesellschaft in accordance with a resolution adopted by shareholders at the Annual General Meeting and as instructed by the Supervisory Board, has audited the consolidated financial statements and the associated management reports. The auditor has also examined the existing risk management system and issued the general auditors' opinion reproduced on [AR page 131](#). The annual financial statements, the consolidated financial statements and the management reports for Henkel AG & Co. KGaA and the Group and the audit reports will be discussed, with the auditors present, at a meeting of the Supervisory Board held for that purpose.

Düsseldorf, January 30, 2009

Henkel Management AG
Management Board

Auditors' 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 consolidated statement of recognized income and expense, 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, 2008 to December 31, 2008. 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 consolidated financial statements, the determination of the 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 30, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Thomas Sauter
Wirtschaftsprüfer

Michael Gewehr
Wirtschaftsprüfer

Corporate Management of Henkel AG & Co. KGaA

**Boards/Memberships as defined by Clause 125 (1) sentence 3 of the German Stock Corporation Act (AktG)
as at January 2009**

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
Dipl.-Ing. Albrecht Woeste Chair, Private Investor, Düsseldorf Born in 1935 Member since June 27, 1988	Henkel Management AG	Henkel AG & Co. KGaA (Shareholders' Committee)
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		
Dr. Friderike Bagel Attorney at Law/Tax Consultant, Düsseldorf Born in 1971 Member since April 18, 2005		
Dr. Simone Bagel-Trah Private Investor, Düsseldorf Born in 1969 Member since April 14, 2008	Henkel Management AG	Henkel AG & Co. KGaA (Shareholders' Committee)
Engelbert Bäßler¹⁾ (until April 14, 2008) Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born in 1951 Member from March 1, 2005		
Jutta Bernicke¹⁾ Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born in 1962 Member since April 14, 2008		
Hans Dietrichs¹⁾ (until March 31, 2008) Chairman of the Works Council of Henkel AG & Co. KGaA, Genthin site Born in 1943 Member from May 4, 1998		
Fritz Franke¹⁾ 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		
Birgit Helten-Kindlein¹⁾ Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born in 1964 Member since April 14, 2008		

¹⁾ Employee representative

Supervisory Board of Henkel AG & Co. KGaA

Members of the Supervisory Board of Henkel AG & Co. KGaA (continued)	Membership of statutory supervisory boards	Membership of comparable supervisory boards
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		
Dr. sc. nat. Michael Kaschke Member of the Executive Board of Carl Zeiss AG, Oberkochen Born in 1957 Member since April 14, 2008	Siltronics AG Carl Zeiss Group mandates: Carl Zeiss Japan Co. Ltd. (Chair) Carl Zeiss Far East (Chair) Carl Zeiss Korea (Chair) Carl Zeiss Singapore (Chair) Carl Zeiss Australia (Chair)	Carl Zeiss Group mandates: Carl Zeiss Japan Co. Ltd. (Chair) Carl Zeiss Far East (Chair) Carl Zeiss Korea (Chair) Carl Zeiss Singapore (Chair) Carl Zeiss Australia (Chair)
Thomas Manchot Private Investor, Düsseldorf Born in 1965 Member since April 10, 2006		
Prof. Dr. Dr. h.c. mult. Heribert Meffert (until April 14, 2008) Former Director of the Institute of Marketing, University of Münster Born in 1937 Member from May 4, 1998	Kaufhof Warenhaus AG	UNIPLAN International GmbH & Co. KG
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 Pichottka¹⁾ Secretariat of the General Executive of IG Bergbau, Chemie, Energie, responsible for research/technology, women/equal opportunities, employees, advertising, Hannover Born in 1959 Member since October 26, 2004	Siltronics AG	
Prof. Dr. Dr. h.c. mult. Heinz Riesenhuber (until April 14, 2008) Former Federal Minister for Research and Technology, Frankfurt/Main Born in 1935 Member from May 4, 1998	Kabel Deutschland GmbH (Chair)	HBM BioVentures AG, Switzerland Heidelberg Innovation BioScience Venture II GmbH & Co. KG
Konstantin von Unger Founding Partner, Blue Corporate Finance, London Born in 1966 Member since April 10, 2006		Ten Lifestyle Management Ltd., Great Britain
Michael Vassiliadis¹⁾ Member 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) K + S Kali GmbH (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)	Membership of statutory supervisory boards	Membership of comparable supervisory boards
Bernhard Walter Former Chairman of the Executive Board of Dresdner Bank AG, Frankfurt/Main Born in 1942 Member since May 4, 1998	Bilfinger Berger AG (Chair) Daimler AG Deutsche Telekom AG Hypo Real Estate Holding AG (Vice-chair)	
Werner Wenning (until April 14, 2008) Chairman of the Executive Board of Bayer AG, Leverkusen Born in 1946 Member from April 14, 2003	Deutsche Bank AG E.ON AG Bayer Group mandate: Bayer Schering Pharma AG (Chair)	
Ulf Wentzien¹⁾ Commercial Executive, Düsseldorf Representative of the Senior Staff of Henkel AG & Co. KGaA Born in 1963 Member since April 14, 2008		
Dr. Anneliese Wilsch-Irrgang¹⁾ (until April 14, 2008) Chemist, Düsseldorf Representative of the Senior Staff of Henkel AG & Co. KGaA Born in 1958 Member from May 4, 1998		
Rolf Zimmermann¹⁾ (until April 14, 2008) Member of the Works Council of Henkel AG & Co. KGaA, Düsseldorf site Born in 1953 Member from October 9, 2002		

¹⁾ Employee representative

Subcommittees of the Supervisory Board

	Functions	Members
Nominations Committee	The Nominations Committee prepares the resolutions of the Supervisory Board on election proposals to be presented to the Annual General Meeting for the election of members to the Supervisory Board (representatives of the shareholders).	Dipl.-Ing. Albrecht Woeste, Chair Dr. Friderike Bagel Bernhard Walter
Audit Committee	The Audit Committee prepares the resolutions of the Supervisory Board on the approval of the annual financial statements and the consolidated financial statements, and the proposal to be put before the Annual General Meeting regarding appointment of the auditor. It further deals with accountancy, risk management and compliance issues.	Bernhard Walter, Chair Dr. Friderike Bagel Birgit Helten-Kindlein Michael Vassiliadis Dipl.-Ing. Albrecht Woeste 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
Dipl.-Ing. Albrecht Woeste Chair, Private Investor, Düsseldorf Born in 1935 Member since June 14, 1976	Henkel AG & Co. KGaA Henkel Management AG	
Dr. Simone Bagel-Trah Vice-chair, 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, San Francisco Born in 1958 Member since May 27, 1991		Texas Syngas Inc., USA
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	
Stefan Hamelmann Private Investor, Düsseldorf Born in 1963 Member since May 3, 1999		
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) Münchener Rückversicherungs- Gesellschaft AG	
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		Ten Lifestyle Management Ltd., Great Britain
Karel Vuurstee 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 Bayer Group mandate: Bayer Schering Pharma AG (Chair)	

Shareholders' Committee of Henkel AG & Co. KGaA

Members of the Shareholders' Committee of Henkel AG & Co. KGaA (continued)	Membership of statutory supervisory boards	Membership of comparable supervisory boards
Dr. Hans-Dietrich Winkhaus (until April 14, 2008) Former Chairman of the Management Board of Henkel KGaA, Düsseldorf Born in 1937 Member from May 8, 2000		

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.	Dr. h.c. Christoph Henkel, Chair Stefan Hamelmann, Vice-chair Dr. Paul Achleitner Dr. h.c. Ulrich Hartmann Prof. Dr. Ulrich Lehner (since April 14, 2008) Dr. Hans-Dietrich Winkhaus (until April 14, 2008)
Human Resources Subcommittee	The Human Resources Subcommittee deals principally with personnel matters concerning members of the Management Board, and issues relating to human resources strategy and remuneration.	Dr. Simone Bagel-Trah, Chair Konstantin von Unger, Vice-chair Karel Vuursteen Werner Wenning (since April 14, 2008) Dipl.-Ing. Albrecht Woeste

Until April 14, 2008 Management Board of Henkel KGaA**Members of the Management Board****Prof. Dr. Ulrich Lehner**

Chair and sole Personally Liable Partner,
Born in 1946
Member from April 1, 1995

Kasper Rorsted

Vice-chair,
Human Resources/
Infrastructure Services
Born in 1962
Member from April 1, 2005

Thomas Geitner

Special Tasks
Born in 1955
Member from March 1, 2008

Alois Linder

Adhesive Technologies
Born in 1947
Member from January 1, 2002

Dr. Friedrich Stara

Laundry & Home Care
Born in 1949
Member from July 1, 2005

Dr. Lothar Steinebach

Finance/Purchasing/IT/Law
Born in 1948
Member from July 1, 2003

Hans Van Bylen

Cosmetics/Toiletries
Born in 1961
Member from July 1, 2005

Personally Liable Partner of Henkel AG & Co. KGaA (since April 14, 2008)**Henkel Management AG**

Düsseldorf,
Commercial Register HRB 58139,
District Court, 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 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)		Henkel Corp. (Chair), USA
Alois Linder (until June 18, 2008) Adhesive Technologies Born in 1947 Member from February 15, 2008 (Member of the Management Board of Henkel KGaA: January 1, 2002 – April 14, 2008)		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/Law 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	Ashwa Technologies Ltd., Saudi Arabia 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 Saudi Arabian Adhesives Factory Co., Saudi Arabia 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 BV, 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
Dipl.-Ing. Albrecht Woeste Chair, Private Investor, Düsseldorf Born in 1935 Member since February 15, 2008	Henkel AG & Co. KGaA	Henkel AG & Co. KGaA (Shareholders' Committee)
Dr. Simone Bagel-Trah Vice-chair, Private Investor, Düsseldorf Born in 1969 Member since February 15, 2008	Henkel AG & Co. KGaA	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. Porsche AG ThyssenKrupp AG	Henkel AG & Co. KGaA (Shareholders' Committee) Dr. August Oetker KG Novartis AG, Switzerland

Corporate Senior Vice Presidents

Jan-Dirk Auris Adhesive Technologies Asia-Pacific	Bertrand Conquéret Global Purchasing	Norbert Koll Schwarzkopf Professional	Stefan Sudhoff Body Care SBU, Cosmetics/Toiletries Central & Eastern Europe/CIS/North and Latin America Regions
Prof. Dr. Ramón Bacardit Adhesive Technologies Research	Jean Fayolle Industrial Adhesives SBU	Libor Kotlik Adhesive Technologies Supply Chain & Operations	Alan Syzdek Adhesive Technologies Global Electronic Materials Business
Alain Bauwens Laundry & Home Care Business Development & MENA/Asia-Pacific/ Central America Regions	Dr. Attilio Gatti Specialty Adhesives SBU Adhesive Technologies Latin America Region	Thomas Gerd Kühn Law	Günter Thumser Henkel Central Eastern Europe
Wolfgang Beynio Finance/Controlling	Enric Holzbacher Consumer & Craftsmen Adhesives/Building Adhesives SBUs Adhesive Technologies Western Europe/Central Eastern Europe/MEA Regions	Andreas Lange Laundry & Home Care Western Europe Region	Christian-André Weinberger Global Chief Marketing Officer GMU Laundry & Home Care
Dr. Andreas Bruns Infrastructure Services	Dr. Joachim Jäckle Financial Operations (since February 1, 2009)	Tina Müller SBU Hair, Skin & Oral Care	Dr. Juliane Wiemerslage Human Resources
Pierre Brusselmans Corporate Development (until March 3, 2009)	Carsten Knobel Cosmetics/Toiletries – Financial Director Finance – Corporate Controlling (since February 1, 2009)	Prof. Dr. Thomas Müller-Kirschbaum Laundry & Home Care R&D/Technology/Supply Chain	Dr. Peter Wroblowski Information Technology
Brad Casper Dial Corporation North America Henkel Consumer Goods, Inc.	Dirk-Stephan Koedijk Chief Compliance Officer	Bruno Piacenza Cosmetics/Toiletries Southern Europe/Western Europe/MENA and Asia-Pacific Regions	At February 1, 2009
Julian Colquitt Adhesive Technologies North America		Dr. Matthias Schmidt Adhesive Technologies – Financial Director (since February 1, 2009)	

Management Circle I Worldwide

Giacomo Archi	Dr. Peter Florenz	Dr. Carlo Mackrodt	Wolfgang Schäufele
Faruk Arig	Dr. Thomas Förster	Andreas Mader	Rolf Schlue
Georg Baratta-Dragono	Timm Rainer Fries	Dr. Klaus Marten	Dr. Berthold Schreck
Francisco Beltran	Holger Gerdes	Lutz Mehlhorn	Dr. Hans-Willi Schroiff
Paul Berry	Roberto Gianetti	Kathrin Menges	Jens-Martin Schwärzler
Cedric Berthod	Dr. Karl W. Gladt	Dr. Clemens Mittelviefhaus	Dr. Johann Seif
Amy Bloebaum	Ralf Grauel	Scott Moffitt	Brian Shook
Dr. Joachim Bolz	Peter Günther	Juan Morcego	Dr. Simone Siebeke
Oriol Bonaclocha	Rainer M. Haertel	Georg Müller	Dr. Walter Sterzel
Robert Bossuyt	James Hardy	Dr. Heinrich Müller	Klaus Strottmann
Ingo Brauckmann	Andreas Haupt	Julio Munoz-Kampff	Monica Sun
Hanno Brenningmeyer	Ludger Hazelaar	Liam Murphy	Marco Swoboda
Daniel Brogan	Georg Hoebenstreit	Christoph Neufeldt	Dr. Boris Tasche
Beat Buser	Dr. Alois Hoeger	Helmut Nuhn	Richard Theiler
Sergej Bykovskikh	Jos Hubin	Joseph O'Brien	Greg Tipsord
Michelle Cheung	Dr. Stefan Huchler	Björk Ohlhorst	Thomas Tönnesmann
Jürgen Convent	Dr. Hans-Georg Hundeck	Michael Olosky	Patrick Trippel
Susanne Cornelius	Jeremy Hunter	Carlos Eduardo Orozco	Christian Twehues
Paul de Bruecker	Will Jacobs	Dr. Uwe Over	Robert Uytdevellegen
Ivan de Jonghe	Dr. Regina Jäger	Campbell Peacock	Tracy Van Bibber
Patrick de Meyer	John Kahl	Jerry Perkins	Amelie Vidal-Simi
Joseph Debiase	Patrick Kaminski	Thomas Perlitz	Dr. Vincenzo Vitelli
Hermann Deitzer	Peter Kardorff	Jeffrey Piccolomini	Dr. Dirk Vollmerhaus
Nicola dell' Venneri	Klaus Keutmann	Arnd Picker	Paul Voordeckers
Serge Delobel	Dr. Christian Kirsten	Michael Prange	Douglas Weekes
Dr. Alexander Ditzé	Dr. Wolfgang Klauck	Ernst Primosch	Dr. Jürgen Wichelhaus
Eric Dumez	Nurierdem Kocak	Dr. Volker Puchta	Dr. Hans-Christof Wilk
Christof Eibel	Dr. Harald Köster	Michael Rauch	Dr. Rudolf Wittgen
Wolfgang Eichstaedt	Dr. Marcus Kuhnert	Gary Raykowitz	Eric Yaszemski
Ashraf El Afifi	Satish Anavangot Kumar	Birgit Rechberger-Krammer	
Steven Essick	Luis Carlos Lacorte	Dr. Michael Reuter	
Charles Evans	Daniel Langer	Robert Risso	
Sam Ewe	Tom Linckens	Gabriele Rusconi	
Thomas Feldbrügge	Oliver Luckenbach	Jean Baptiste Santoul	At January 1, 2009

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 opportunities and risks associated with the expected development of the Group.

Düsseldorf, January 30, 2009

Henkel Management AG
Management Board
Kasper Rorsted,
Thomas Geitner, Dr. Friedrich Stara,
Dr. Lothar Steinebach, Hans Van Bylen

Financial Highlights by Quarter

in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year		
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	
Sales											
Laundry & Home Care	1,069	1,031	1,024	1,012	1,053	1,068	1,002	1,061	4,148	4,172	
Cosmetics/Toiletries	704	708	769	779	768	770	731	759	2,972	3,016	
Adhesive Technologies	1,406	1,364	1,440	1,816	1,474	1,860	1,391	1,660	5,711	6,700	
Corporate	58	59	60	61	63	62	62	61	243	243	
Henkel Group	3,237	3,162	3,293	3,668	3,358	3,760	3,186	3,541	13,074	14,131	
Cost of sales	-1,726	-1,687	-1,748	-2,149	-1,797	-2,188	-1,742	-2,166	-7,013	-8,190	
Gross profit	1,511	1,475	1,545	1,519	1,561	1,572	1,444	1,375	6,061	5,941	
Marketing, selling and distribution expenses	-937	-920	-975	-1,063	-963	-1,039	-873	-971	-3,748	-3,993	
Research and development expenses	-85	-86	-91	-98	-87	-149	-87	-96	-350	-429	
Administrative expenses	-169	-166	-153	-254	-156	-214	-186	-191	-664	-825	
Other operating charges and income	3	17	13	9	4	21	25	38	45	85	
EBIT											
Laundry & Home Care	117	100	111	92	126	117	105	130	459	439	
Cosmetics/Toiletries	82	87	98	98	95	96	97	95	372	376	
Adhesive Technologies	149	150	162	192	164	169	146	147	621	658	
Corporate	-25	-17	-32	-269	-26	-191	-25	-217	-108	-694	
Henkel Group	323	320	339	113	359	191	323	155	1,344	779	
Investment result	19	19	24	24	22	24	19	1,056	84	1,123	
Net interest	-49	-38	-37	-84	-44	-72	-48	-81	-178	-275	
Financial result	-30	-19	-13	-60	-22	-48	-29	975	-94	848	
Earnings before tax	293	301	326	53	337	143	294	1,130	1,250	1,627	
Taxes on income	-83	-78	-87	-11	-92	-36	-47	-269	-309	-394	
Net earnings	210	223	239	42	245	107	247	861	941	1,233	
Minority interests	-5	-4	-5	-4	-7	-6	-3	2	-20	-12	
Earnings after minority interests	205	219	234	38	238	101	244	863	921	1,221	
Earnings per preferred share	in euros	0.48	0.51	0.54	0.09	0.55	0.23	0.57	2.00	2.14	2.83

in million euros	1st quarter		2nd quarter		3rd quarter		4th quarter		Full year		
	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	
EBIT (as reported)											
EBIT (as reported)	323	320	339	113	359	191	323	155	1,344	779	
One-time gains	-	-8	-8	-3	-	-	-	-	-19	-8	
One-time charges	-	-	-	6	-	19	-	23	-	48	
Restructuring charges	9	6	14	256	9	181	2	220	34	663	
Adjusted EBIT	332	318	345	372	368	391	325	379	1,370	1,460	
Adjusted earnings per preferred share	in euros	0.50	0.51	0.55	0.52	0.57	0.59	0.57	0.57	2.19	2.19

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	2004	2004 ⁵⁾	2005	2006	2007	2008
Sales	10,592	10,592	11,974	12,740	13,074	14,131
Operating profit (EBIT)	800 ⁴⁾	996	1,162	1,298	1,344	779
Earnings before tax	808 ⁴⁾	1,007	1,042	1,176	1,250	1,627
Net earnings	551 ⁴⁾	748	770	871	941	1,233
Earnings after minority interests	550 ⁴⁾	747	757	855	921	1,221
Earnings per preferred share (EPS) ¹⁾	1.29 ⁴⁾	1.75	1.77	1.99	2.14	2.83
Total assets	13,138	13,287	13,944	13,346	13,048	16,074
Non-current assets	7,400	7,989	9,065	8,664	7,931	11,261
Current assets	5,738	5,248	4,879	4,682	5,117	4,813
Debt	8,937	8,941	8,545	7,799	7,342	9,539
Shareholders' equity	4,201	4,346	5,399	5,547	5,706	6,535
as % of total assets	32.0	32.7	38.7	41.6	43.7	40.6
Net return on sales in % ²⁾	5.12 ⁴⁾	7.06	6.43	6.84	7.20	8.72
Return on equity in % ³⁾	16.1 ⁴⁾	17.2	17.7	16.1	17.0	21.6
Dividend per ordinary share in euros	0.41	0.41	0.43	0.48	0.51	0.51 ⁶⁾
Dividend per preferred share in euros	0.43	0.43	0.45	0.50	0.53	0.53 ⁶⁾
Total dividends	185	185	193	214	227	227 ⁶⁾
Capital expenditures (including financial assets)	4,628	4,678	1,119	897	548	4,074
Investment ratio as % of sales	43.7	43.7	9.3	7.0	4.2	28.8
Research and development costs	272	272	324	340	350	429
Number of employees (annual average)	49,947	49,947	51,724	51,716	52,303	55,513
of which in Germany	10,488	10,488	10,264	9,995	9,899	9,892
of which abroad	39,459	39,459	41,460	41,721	42,404	45,621

¹⁾ Basis: share split (1:3) of June 18, 2007²⁾ Net earnings / sales³⁾ Net earnings / shareholders' equity at the start of the year⁴⁾ Before exceptional items⁵⁾ Restated and comparable⁶⁾ Proposed

Vision & Values

Henkel is a leader with brands and technologies that make people's lives easier, better and more beautiful.

- » We are customer driven.
- » We develop superior brands and technologies.
- » We aspire to excellence in quality.
- » We strive for innovation.
- » We embrace change.
- » We are successful because of our people.
- » We are committed to shareholder value.
- » We are dedicated to sustainability and corporate social responsibility.
- » We communicate openly and actively.
- » We preserve the tradition of an open family company.

Credits

Published by:

Henkel AG & Co. KGaA
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Calendar

**Annual General Meeting of
Henkel AG & Co. KGaA 2009:
Monday, April 20, 2009**

**Publication of Report
for the First Quarter 2009:
Wednesday, May 6, 2009**

**Publication of Report
for the Second Quarter/Half Year 2009:
Wednesday, August 5, 2009**

**Publication of Report
for the Third Quarter/Nine Months 2009:
Wednesday, November 11, 2009**

**Press Conference for Fiscal 2009
and Analysts' Conference 2010:
Thursday, February 25, 2010**

**Annual General Meeting of
Henkel AG & Co. KGaA 2010:
Monday, April 19, 2010**

Up-to-date facts and figures on Henkel also
available on the internet:  www.henkel.com

Henkel

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