Notes to the consolidated statement of financial position

The measurement and recognition policies for financial statement items are described in the relevant note.

Non-current assets

All non-current assets with definite useful lives are depreciated or amortized using the straight-line method on the basis of estimated useful lives. The useful life estimates are reviewed annually. If facts or circumstances indicate the need for impairment, the recoverable amount is determined. It is measured as the higher of the fair value less costs to sell (net realizable value) and the value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts, and are charged to the relevant functions.

The following unchanged, standardized useful lives are applied:

Useful life

in years	
Intangible assets with definite useful lives	3 to 20
Residential buildings	50
Office buildings	40
Research and factory buildings, workshops, stores and staff buildings	25 to 33
Plant facilities	10 to 25
Machinery	7 to 10
Office equipment	10
Vehicles	5 to 20
Factory and research equipment	2 to 5

(1) Intangible assets

Cost

in million euros	Trademark rights and other rights: Assets with indefinite useful lives	Trademark rights and other rights: Assets with definite useful lives	Internally generated intangible assets with definite useful lives	Goodwill	Total
At January 1, 2012	1,248	1,538	174	6,723	9,683
Acquisitions	16	14	–	60	90
Divestments	–	–	–	–	–
Additions	–	5	24	–	29
Disposals	–	– 7	–	–	– 7
Reclassifications into assets held for sale [1]	1	–	–	– 11	– 10
Reclassifications	–	4	3	–	7
Translation differences	– 23	– 17	– 1	– 100	– 141
At December 31, 2012 / January 1, 2013	1,242	1,537	200	6,672	9,651
Acquisitions	–	1	–	11	12
Divestments	–	–	–	– 2	– 2
Additions	–	9	23	–	32
Disposals	–	– 22	– 5	–	– 27
Reclassifications into assets held for sale	–	–	–	– 5	– 5
Reclassifications	–	3	1	–	4
Translation differences	– 47	– 79	– 4	– 309	– 439
At December 31, 2013	1,195	1,449	215	6,367	9,226

[1] Of which: 1 million euros acquisition costs and 0 million euros write-downs arising from reclassification of assets held for sale, as disposal is no longer intended.

Accumulated amortization/impairment

in million euros	Trademark rights and other rights		Internally generated intangible assets with definite useful lives	Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives			
At January 1, 2012	13	789	101	11	914
Divestments	–	–	–	–	–
Write-ups	–	–	–	–	–
Scheduled amortization	–	86	20	–	106
Impairment losses	–	–	–	–	–
Disposals	–	– 7	–	–	– 7
Reclassifications into assets held for sale	–	–	–	–	–
Reclassifications	–	–	–	–	–
Translation differences	–	– 7	–	–	– 7
At December 31, 2012 / January 1, 2013	13	861	121	11	1,006
Divestments	–	–	–	–	–
Write-ups	– 5	–	–	–	– 5
Scheduled amortization	–	81	20	–	101
Impairment losses	8	–	–	5	13
Disposals	–	– 21	– 5	–	– 26
Reclassifications into assets held for sale	–	–	–	– 2	– 2
Reclassifications	–	– 1	1	–	–
Translation differences	–	– 48	– 2	–	– 50
At December 31, 2013	16	872	135	14	1,037

Net book values

in million euros	Trademark rights and other rights		Internally generated intangible assets with definite useful lives	Goodwill	Total
	Assets with indefinite useful lives	Assets with definite useful lives			
At December 31, 2013	1,179	577	80	6,353	8,189
At December 31, 2012	1,229	676	79	6,661	8,645

Goodwill represents the future economic benefit of assets that are acquired through business combinations and not individually identifiable and separately recognized, as well as expected synergies, and is recognized at cost. Trademarks and other rights acquired for valuable consideration are stated at purchase cost, while internally generated software is stated at manufacturing cost.

Additions to internally generated intangible assets mostly reflect investments in consolidating and optimizing our IT system environment for managing business processes in the Asia-Pacific region.

The change in goodwill resulting from acquisitions and divestments made in the fiscal year is presented in the section "Acquisitions and divestments" on pages 111 and 112.

Goodwill as well as trademarks and other rights with indefinite useful lives are subjected to an impairment test at least once a year and also when indicators of impairment are present ("impairment only" approach).

Amortization and impairment of trademark rights and other rights are recognized as selling expenses. Amortization and impairment of other intangible assets are allocated to the relevant functions in the consolidated statement of income.

In the course of our annual impairment test, we reviewed the carrying amounts of goodwill and trademark rights and other rights with indefinite useful lives. The following table shows the cash-generating units together with the associated goodwill at book value at the reporting date. The description of the cash-generating units can be found in the notes to the consolidated financial statements, Note 34 on pages 159 and 160 and in the Group management report on pages 78 to 89.

Book values – Goodwill

Cash-generating units (summarized) in million euros	December 31, 2012 Goodwill	December 31, 2013 Goodwill
Laundry	689	653
Home Care	788	753
Total Laundry & Home Care	**1,477**	**1,406**
Branded Consumer Goods	1,058	1,026
Hair Salon	100	98
Total Beauty Care	**1,158**	**1,124**
Industrial Adhesives	3,632	3,452
Adhesives for Consumers, Craftsmen and Building	394	371
Total Adhesive Technologies	**4,026**	**3,823**

We assess goodwill impairment and impairment to trademarks and other rights according to the fair-value-less-costs-to-sell approach on the basis of future estimated cash flows which are obtained from corporate budgets. The determination of fair value (before deduction of costs to sell) is allocated to valuation level 3 (see Note 21 on pages 140 to 152). The assumptions upon which the essential planning parameters are based reflect experience gained in the past, aligned to current information provided by external sources. Budgets are prepared on the basis of a financial planning horizon of three years. For the period after that, a growth rate in a range between 1 and 2 percent in the cash flows is assumed for the purpose of impairment testing. The US dollar to euro exchange rate applied is 1.32. Taking into account specific tax effects, the cash flows in all cash-generating units are discounted at different rates reflecting the weighted average cost of capital (WACC) in each business unit: 6.00 percent after tax for Laundry & Home Care and Beauty Care, and 7.75 percent after tax for Adhesive Technologies. The reportable segment Industrial Adhesives is comprised of the two business areas Packaging, Consumer Goods and Construction Adhesives; and Transport, Metal, General Industry and Electronics. Goodwill at our Packaging, Consumer Goods and Construction Adhesives business in fiscal 2013 amounted to 1,782 million euros (previous year: 1,880 million euros), while goodwill at Transport, Metal, General Industry and Electronics had a value of 1,670 million euros in 2013 (previous year: 1,752 million euros).

In the Laundry & Home Care business unit, we have assumed an increase in sales during the three-year detailed forecasting horizon of 3 to 4 percent per year, with a slight increase in market share. Sales growth in the Beauty Care business unit over the three-year forecasting horizon is budgeted at around 4 percent per annum. Here, too, we expect a slight increase in market share. Sales in the Adhesive Technologies business unit are expected to grow by around 6 percent per annum on average over the detailed three-year forecasting horizon, and thus above the market average.

In all the business units, we assume that a future increase in the cost of raw materials can be extensively offset by cost reduction measures in purchasing and by passing the increase on to our customers, as well as through the implementation of efficiency improvement measures. Given our continued pro-active management of the portfolio, we anticipate achieving higher gross margins in all our business units.

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

Trademark rights and other rights with indefinite useful lives are presented in the following table.

Book values – Trademark rights and other rights

by business area (summarized) in million euros	December 31, 2012 Trademark and other rights with indefinite useful lives	December 31, 2013 Trademark and other rights with indefinite useful lives
Laundry	381	359
Home Care	244	234
Total Laundry & Home Care	**625**	**593**
Branded Consumer Goods	460	442
Hair Salon	13	13
Total Beauty Care	**473**	**455**
Industrial Adhesives	48	51
Adhesives for Consumers, Craftsmen and Building	83	80
Total Adhesive Technologies	**131**	**131**

The trademark rights with indefinite useful lives with a net book value of 1,179 million euros (previous year: 1,229 million euros) are established in their markets and will continue to be intensively promoted. Moreover, there are no other statutory, regulatory or competition-related factors that limit our usage of our brand names. The value of trademarks and other rights with indefinite useful lives attributable to our Industrial Adhesives segment is composed of 40 million euros (previous year: 42 million euros) for our Packaging, Consumer Goods and Construction Adhesives businesses, and 40 million euros (previous year: 41 million euros) for our Transport, Metal, General Industry and Electronics businesses.

Our annual impairment tests on trademark rights and other rights with indefinite useful lives with a total value of 1,179 million euros (previous year: 1,229 million euros) resulted in impairment losses of 8 million euros (previous year: 0 million euros) in our Laundry & Home Care business unit. An impairment reversal of 5 million euros was made in fiscal 2013 for trademark rights in our Adhesive Technologies business unit.

The company also intends to continue using the brands disclosed as having definite useful lives. No impairment losses were registered with respect to trademark rights and other rights with definite useful lives in 2013.

(2) Property, plant and equipment

Cost

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2012	**1,998**	**2,668**	**927**	**227**	**5,820**
Acquisitions	–	4	–	–	**4**
Divestments	–	–	–	–	**–**
Additions	32	106	66	189	**393**
Disposals	– 23	– 107	– 72	– 1	**– 203**
Reclassifications into assets held for sale	– 5	– 7	– 2	–	**– 14**
Reclassifications	46	109	35	– 197	**– 7**
Translation differences	– 10	– 10	– 5	– 2	**– 27**
At December 31, 2012 / January 1, 2013	**2,038**	**2,763**	**949**	**216**	**5,966**
Acquisitions	10	6	–	1	**17**
Divestments	– 8	– 15	– 4	–	**– 27**
Additions	21	86	61	236	**404**
Disposals	– 37	– 92	– 91	– 4	**– 224**
Reclassifications into assets held for sale	– 2	–	–	–	**– 2**
Reclassifications	44	109	30	– 188	**– 5**
Translation differences	– 66	– 80	– 31	– 10	**– 187**
At December 31, 2013	**2,000**	**2,777**	**914**	**251**	**5,942**

Accumulated depreciation/impairment

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At January 1, 2012	913	1,933	710	–	3,556
Divestments	–	–	–	–	–
Write-ups	–	– 1	–	–	– 1
Scheduled depreciation	58	148	86	–	292
Impairment losses	2	10	–	–	12
Disposals	– 16	– 100	– 71	–	– 187
Reclassifications into assets held for sale	– 2	– 4	– 1	–	– 7
Reclassifications	–	–	–	–	–
Translation differences	– 1	– 9	– 3	–	– 13
At December 31, 2012 / January 1, 2013	954	1,977	721	–	3,652
Divestments	– 4	– 12	– 3	–	– 19
Write-ups	–	–	–	–	–
Scheduled depreciation	57	152	82	–	291
Impairment losses	3	13	4	–	20
Disposals	– 27	– 89	– 89	–	– 205
Reclassifications into assets held for sale	– 2	–	–	–	– 2
Reclassifications	–	– 1	1	–	–
Translation differences	– 20	– 48	– 21	– 1	– 90
At December 31, 2013	961	1,992	695	– 1	3,647

Net book values

in million euros	Land, land rights and buildings	Plant and machinery	Factory and office equipment	Assets in the course of construction	Total
At December 31, 2013	1,039	785	219	252	2,295
At December 31, 2012	1,084	786	228	216	2,314

Additions are stated at purchase or manufacturing cost. The latter includes direct costs and appropriate proportions of necessary overheads. Interest charges on borrowings are not included, as Henkel does not currently hold any qualifying assets in accordance with IAS 23 "Borrowing Costs." A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use. Cost figures are shown net of investment grants and allowances. Incidental acquisition costs incurred in order to make the asset ready for the intended use are capitalized. An overview of the primary investment projects undertaken during the fiscal year can be found on page 62 in the Group management report.

At December 31, 2013, property, plant and equipment with a carrying amount of 1 million euros had been pledged as security for existing liabilities. The periods over which the assets are depreciated are based on their estimated useful lives as set out on page 119. Scheduled depreciation and impairment losses recognized are allocated to the relevant functions in the consolidated statement of income.

Of the impairment losses amounting to 20 million euros, structure optimization measures attributable to the Laundry & Home Care business unit accounted for 4 million euros. In the Adhesive Technologies business unit, impairment losses of 11 million euros were recognized as a result of production optimization measures.

(3) Other financial assets

Analysis

in million euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2013 Non-current	December 31, 2013 Current	December 31, 2013 Total
Receivables from associated companies	–	1	1	–	–	–
Financial receivables from third parties	15	44	59	15	17	32
Derivative financial instruments	204	54	258	95	57	152
Investments accounted for at equity	6	–	6	5	–	5
Other investments	18	–	18	18	–	18
Receivable from Henkel Trust e.V.	–	20	20	–	120	120
Securities and time deposits	–	2,241	2,241	–	2,380	2,380
Financial collateral provided	–	4	4	–	26	26
Sundry financial assets	15	79	94	15	64	79
Total	**258**	**2,443**	**2,701**	**148**	**2,664**	**2,812**

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

The receivable from Henkel Trust e.V. relates to pension payments made by Henkel AG & Co. KGaA to retirees, for which reimbursement can be claimed from Henkel Trust e.V.

Included under securities and time deposits are monies deposited as part of our short-term financial management arrangements. The securities involved are fixed-interest and floating-interest bonds. All the bonds are publicly listed and can be sold at short notice.

Sundry non-current financial assets include among others receivables from employees. The sundry current financial assets include the following:
- Receivables from sureties and guarantee deposits amounting to 34 million euros (previous year: 38 million euros)
- Receivables from suppliers amounting to 9 million euros (previous year: 13 million euros)
- Receivables from employees amounting to 11 million euros (previous year: 9 million euros)

(4) Other assets

Analysis

in million euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2013 Non-current	December 31, 2013 Current	December 31, 2013 Total
Tax receivables	7	117	124	3	136	139
Payments on account	–	20	20	–	17	17
Overfunding of pension obligations	4	–	4	3	–	3
Reimbursement rights related to employee benefits	84	5	89	89	7	96
Accruals	6	56	62	20	59	79
Sundry other assets	16	18	34	1	22	23
Total	**117**	**216**	**333**	**116**	**241**	**357**

The reimbursement rights related to employee benefits pertain to defined benefit pension obligations. The reimbursement rights and the pension obligations are reported unnetted in the statement of financial position per IAS 19.

(5) Deferred taxes

Deferred taxes are recognized for temporary differences between the valuation of an asset or a liability in the financial statements and its tax base, for tax losses carried forward and for unused tax credits. This also applies to temporary differences in valuation arising through acquisitions, with the exception of goodwill.

Deferred tax liabilities on taxable temporary differences related to shares in subsidiaries are recognized to the extent that a reversal of this difference is expected in the foreseeable future.

Changes in the deferred taxes in the statement of financial position result in deferred tax expenses or income unless the underlying item is directly recognized in equity. For items recognized directly in equity, the associated deferred taxes are also recognized in equity.

The valuation, recognition and breakdown of deferred taxes in respect of the various items in the statement of financial position are disclosed under Note 30 ("Taxes on income") on pages 155 to 157.

(6) Inventories

In accordance with IAS 2, reported under inventories are those assets that are intended to be sold in the ordinary course of business (finished products and merchandise), those in the process of production for such sale (unfinished products) and those to be utilized or consumed in the course of manufacture or the rendering of services (raw materials and supplies). Payments on account made for the purpose of purchasing inventories are likewise disclosed under the inventories heading.

Inventories are measured at the lower of cost and net realizable value.

Inventories are measured using either the "first in, first out" (FIFO) or the average cost method. Manufacturing cost includes not only the direct costs but also appropriate portions of necessary overheads (for example goods-in department, raw material storage, filling, costs incurred through to the finished goods warehouse), production-related administrative expenses, the costs of the retirement pensions of people who are employed in the production process, and production-related amortization/depreciation. The overhead add-ons are calculated on the basis of average capacity utilization. Not included, however, are interest expenses incurred during the manufacturing period.

The net realizable value is determined as an estimated selling price less costs yet to be incurred through to completion, and necessary selling and distribution costs. Write-downs to the net realizable value are made if, at year-end, the carrying amounts of the inventories are above their realizable fair values. The resultant valuation allowance amounted to 125 million euros (previous year: 119 million euros). The carrying amount of inventories recognized at fair value less costs to sell amounted to 260 million euros. The carrying amount of inventories pledged as security for liabilities amounted to 30 million euros.

Analysis of inventories

in million euros	December 31, 2012	December 31, 2013
Raw materials and supplies	471	431
Work in progress	62	56
Finished products and merchandise	942	1,000
Payments on account for merchandise	3	7
Total	**1,478**	**1,494**

(7) Trade accounts receivable

Trade accounts receivable amounted to 2,370 million euros (previous year: 2,021 million euros). They are all due within one year. Valuation allowances have been recognized in respect of specific risks as appropriate. Overall, we recognized total valuation allowances of 17 million euros (previous year: 30 million euros).

Trade accounts receivable

in million euros	December 31, 2012	December 31, 2013
Trade accounts receivable, gross	2,130	2,468
less: cumulative valuation allowances on trade accounts receivable	109	98
Trade accounts receivable, net	**2,021**	**2,370**

Development of valuation allowances on trade accounts receivable

in million euros	2012	2013
Valuation allowances at January 1	**100**	**109**
Additions	27	13
Transfer of receivables	– 17	– 20
Currency translation effects	– 1	– 4
Valuation allowances at December 31	**109**	**98**

(8) Cash and cash equivalents

Recognized under cash and cash equivalents are liquid funds, sight deposits and other financial assets with an original term of not more than three months. In accordance with IAS 7, also recognized under cash equivalents are shares in money market funds which, due to their first-class credit rating and investment in extremely short-term money market securities, undergo only minor value fluctuations and can be readily converted within one day into known amounts of cash. Utilized bank overdrafts are recognized in the statement of financial position as liabilities to banks.

The volume of cash and cash equivalents decreased compared to the previous year, from 1,238 million euros to 1,051 million euros. Of this figure, 873 million euros (previous year: 913 million euros) relate to cash and 178 million euros (previous year: 325 million euros) to cash equivalents. The change is shown in the consolidated statement of cash flows.

(9) Assets and liabilities held for sale

Assets held for sale are assets that can be sold in their current condition and whose sale is very probable. Disposal must be expected within one year from the time of reclassification as held for sale. Such assets may be individual assets, groups of assets (disposal groups) or business operations (discontinued operations). Assets held for sale are no longer subject to scheduled depreciation and amortization and are instead recognized at the lower of carrying amount and fair value less costs to sell (level 3), which is determined by the current price negotiations with potential buyers.

Compared to December 31, 2012, assets held for sale declined by 2 million euros to 36 million euros. Liabilities held for sale rose from 9 million euros to 29 million euros in the same period. This increase is due in part to the reclassification of the assets and liabilities of our companies in Iran as assets and liabilities held for sale. We intend to sell the companies within twelve months. The impairments resulting from the measurement of the assets at the lower of carrying amount and fair value were recognized through profit and loss. An additional charge is also expected to be incurred as a result of the deconsolidation of the two companies. We expect the entire expense connected with the sale to be around 55 million euros. The planned sale marks our complete withdrawal from Iran.

In addition, our assets held for sale increased as a result of the reclassification of the assets of a non-core activity in the Adhesive Technologies business unit. This was partially offset by the transfer to the buyer of the assets of Chemofast Anchoring GmbH. As of December 31, 2012, the assets and liabilities of the company had been classified as "held for sale."

Assets and liabilities held for sale

in million euros	December 31, 2013
Intangible assets and property, plant and equipment	7
Inventories and trade accounts receivable	11
Cash and cash equivalents	10
Other assets	8
Provisions	– 17
Borrowings	– 6
Other liabilities	– 6
Net assets	**7**

(10) Issued capital

Issued capital

in million euros	December 31, 2012	December 31, 2013
Ordinary bearer shares	260	260
Preferred bearer shares	178	178
Capital stock	**438**	**438**

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

All the shares are fully paid in. The ordinary and preferred shares are bearer shares of no par value, each of which represents a nominal proportion of the capital stock amounting to 1 euro. The liquidation proceeds are the same for all shares. The number of ordinary shares issued remained unchanged from the previous year. The number of preferred shares in circulation is also unchanged from the previous year and amounted to 174,482,305 shares at December 31, 2013.

According to Art. 6 (5) of the Articles of Association, the Personally Liable Partner is authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to increase the capital of the corporation in one or more installments at any time until April 18, 2015, by as much as 25.6 million euros (25.6 million shares) in total by issuing new non-voting preferred shares to be paid up in cash (authorized capital). All shareholders are essentially assigned pre-emptive rights. However, these may be set aside where necessary in order to grant to holders of bonds with warrants or conversion rights issued by the corporation, or one of the companies dependent

upon it, pre-emptive rights to new shares corresponding to those that would accrue to such bondholders following the exercise of their warrant or conversion rights, or if the issue price of the new shares is not significantly below the quoted market price at the time of issue price fixing. Pre-emptive rights may also be set aside where necessary in order to dispose of fractional amounts.

On April 19, 2010, the Annual General Meeting of Henkel AG & Co. KGaA resolved to authorize the Personally Liable Partner to acquire, by April 18, 2015, ordinary or preferred shares of the corporation representing a nominal proportion of the capital stock of not more than 10 percent. This authorization can be exercised for any legal purpose. To the exclusion of the pre-emptive rights of existing shareholders, treasury shares may be used for transferring to third parties for the purpose of acquiring companies or investing in companies. Treasury shares may also be sold to third parties against payment in cash, provided that the selling price is not significantly below the quoted market price at the time of share disposal. The shares may likewise be used to satisfy warrants or conversion rights granted by the corporation.

The Personally Liable Partner has also been authorized – with the approval of the Shareholders' Committee and of the Supervisory Board – to cancel treasury shares without the need for further resolution by the Annual General Meeting. The proportion of capital stock represented by treasury shares issued or sold on the basis of these authorizations must not exceed a total of 10 percent. Also to be taken into account in this restriction are shares used to service bonds with warrants or conversion rights or a conversion obligation, issued by the corporation or one of the companies dependent upon it, where these bonds were or are issued with the pre-emptive rights of existing shareholders excluded.

Treasury shares held by the corporation at December 31, 2013 amounted to 3,680,570 preferred shares. This represents 0.84 percent of the capital stock and a proportional nominal value of 3.7 million euros.

See also the explanatory notes on pages 26 to 28 of the Group management report.

(11) Capital reserve

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

(12) Retained earnings

Recognized 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 income less those amounts attributable to non-controlling interests
- Buy-back of treasury shares by Henkel AG & Co. KGaA at cost and the proceeds from their disposal
- Actuarial gains and losses recognized in equity
- The acquisition or disposal of ownership interests in subsidiaries with no change in control

For details on the acquisition of ownership interests in subsidiaries with no change in control in fiscal 2013, please see the section "Acquisitions and divestments" on pages 111 and 112.

(13) Other components of equity

Reported under this heading are differences arising from the currency translation of annual financial statements of foreign subsidiaries and also the effects arising from the valuation in total comprehensive income of financial assets in the "Available for sale" category and of derivative financial instruments for which hedge accounting is used. The latter are derivatives used in connection with cash flow hedges or hedges of a net investment in a foreign entity. Due in particular to the depreciation of the US dollar versus the euro, the negative difference attributable to shareholders of Henkel AG & Co. KGaA arising from currency translation grew compared to the figure at December 31, 2012, by –530 million euros to –1,336 million euros.

(14) Non-controlling interests

Recognized under non-controlling interests are equity shares held by third parties measured on the basis of the proportion of net assets.

(15) Pension obligations

Description of the pension plans

Employees in companies included in the consolidated financial statements have entitlements under company pension plans which are either defined contribution or defined benefit plans. These take different forms depending on the legal, financial and tax regime of each country. The level of benefits provided is based, as a rule, on the length of service and on the income of the person entitled. Details on pension benefits for members of the Management Board are provided in the remuneration report on pages 33 to 41.

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.

A total of around 67,600 plan participants qualify for benefits under our pension programs. Of this figure, 28,300 are active employees, 9,100 are former employees with vested benefits, and 30,200 are retirees. The majority of the recipients of pension benefits are located in Germany and the USA. The pension obligations are primarily financed via various external trust assets that are legally independent of Henkel.

Active employees of Henkel in Germany participate in a defined contribution system, "Altersversorgung 2004 (AV 2004)," which was restructured in 2004. AV 2004 is an employer-financed pension plan that reflects the personal income development of employees during their career at Henkel and thus provides a defined benefit pension. Henkel guarantees a minimum return on the company's contributions. The benefit essentially consists of an annuity payable upon attainment of the retirement age plus a lump-sum payment if the annuity threshold is exceeded in the employee's service period. In addition to age and disability pensions, the plan benefits include surviving spouse and surviving child benefits.

Employees who started at Henkel after April 1, 2011 participate in the pension plan "Altersversorgung 2011 (AV 2011)." AV 2011 is an employer-financed, fund-linked retirement plan funded by contributions based on the income development of the employee. Henkel ensures its employees that a principal amount is available upon retirement which is at least equivalent to the level of principal contributions made by Henkel. Henkel makes the pension contribution to an investment fund established for the purpose of the company pension plan. Upon attaining retirement age, the employee can choose between an annuity through transfer of the superannuation lump-sum to a pension fund, or a one-time payment.

To provide protection under civil law of the pension entitlements of future and current pensioners of Henkel AG & Co. KGaA against insolvency, we have transferred the proceeds of the bond issued in 2005 and certain other assets to Henkel Trust e.V. The trustee invests the cash with which it has been entrusted in the capital market in accordance with investment policies laid down in the trust agreement. In addition, we also subsidize medical benefits for retired employees resident mainly in the USA. Under these programs, retirees are reimbursed for a certain percentage of their medical expenses. We build provisions during the employees' service period and pay the promised benefits when they are claimed.

The defined contribution plans are structured in such a way that the corporation pays contributions to public or private sector institutions on the basis of statutory or contractual terms or on a voluntary basis and has no further obligations regarding the payment of benefits to employees. The contributions for defined contribution plans excluding multi-employer plans for the year under review amounted to 85 million euros (previous year: 90 million euros). In 2013, we paid 46 million euros to public sector institutions (previous year: 48 million euros) and 39 million euros to private sector institutions (previous year: 42 million euros).

The pension benefits paid from plan assets in the USA increased from –45 million euros to –149 million euros in the reporting period. The increase resulted from early benefit payments to former employees in the USA.

Multi-employer plans

Henkel provides defined pension benefits that are financed by more than one employer. The following multi-employer plans are treated as defined contribution plans because, due to the limited share of the contribution volume in the plans, the information available for each of the financing companies is insufficient for defined benefit accounting. In the Henkel Group, benefits from multi-employer plans are provided for employees primarily in the USA and Japan. Withdrawal from our multi-employer plans at the present time would incur a one-time expense of around 25 million euros (previous year: around 25 million euros).

The most significant information concerning our major multi-employer plans is presented below:

Overview of multi-employer plans at December 31, 2013

Country in million euros	Share of plan contribution volume	Coverage ratio	Contributions	Expected contributions 2014
USA	0.20 %	48 %	1.0	1.0
Japan	0.44 %	75 %	0.5	0.5
Japan	1.67 %	82 %	0.5	0.5
Japan	7.13 %	81 %	0.2	0.2

Assumptions

Group-wide, the obligations from our pension plans are valued by an independent external actuary at the end of the fiscal year. The calculations at the end of the fiscal year are based on the actuarial assumptions below. These are given as the weighted average. The mortality rates used are based on published statistics and experience relating to each country. In Germany, the assumptions are based on the "Heubeck 2005G" mortality table. In the USA, the assumptions are based on the "RP 2000 projected to 2030" mortality table. The valuation of pension obligations in Germany was based essentially on the assumption of a 2 percent increase in retirement benefits (previous year: 2 percent).

The discount rate is based on yields in the market for high-ranking corporate bonds on the respective date. The currency and term of the underlying bonds are aligned with the currency and expected maturities of the post-employment pension obligation.

Actuarial assumptions

	Germany		USA		Other countries[1]	
in percent	2012	2013	2012	2013	2012	2013
Discount rate	3.00	3.00	3.80	4.90	4.20	3.50
Income trend	3.25	3.25	4.25	4.25	3.00	3.25
Expected increases in costs for medical benefits	–	–	8.00	7.50	6.30	3.00
in years						
Life expectancy at age 65 as of the valuation date for a person currently						
65 years old	20.6	20.8	20.0	21.0	22.9	23.5
40 years old	23.7	24.0	20.0	21.0	25.2	26.0

[1] Weighted average.

Prior-year figures adjusted in application of IAS 19 revised (see notes on page 116).

Present value of pension obligations at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	**2,269**	**1,169**	**846**	**4,284**
Changes in the Group	–	–	–	**–**
Translation differences	–	– 20	–	**– 20**
Actuarial gains (–)/losses (+)	418	89	115	**622**
of which: from changes in demographic assumptions[1]	–	–	–	**–**
of which: from changes in financial assumptions	413	84	109	**606**
of which: from experience adjustments	5	5	6	**16**
Current service cost	37	19	27	**83**
Employee contributions to pension funds	–	–	1	**1**
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 15	**– 15**
Interest expense	96	50	35	**181**
Retirement benefits paid out of plan assets/out of reimbursement rights	– 36	– 54	– 53	**– 143**
Employer's payments for pension obligations	– 104	– 26	– 13	**– 143**
Past service cost (+)/gain (–)	4	– 1	– 3	**–**
At December 31, 2012	**2,684**	**1,226**	**940**	**4,850**
of which: unfunded obligations	100	298	103	**501**
of which: funded obligations	2,584	821	837	**4,242**
of which: obligations covered by reimbursement rights	–	107	–	**107**

[1] Other countries not calculated due to materiality; figures reported based on financial assumptions.

Fair value of plan assets at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	**1,933**	**728**	**642**	**3,303**
Changes in the Group	–	–	–	**–**
Translation differences	–	– 16	4	**– 12**
Employer contributions to pension funds	235	80	47	**362**
Employee contributions	–	–	1	**1**
Retirement benefits paid out of plan assets	– 36	– 45	– 53	**– 134**
Interest income on plan assets	88	27	24	**139**
Plan administration costs	–	–	–	**–**
Remeasurements in equity	153	48	40	**241**
At December 31, 2012	**2,373**	**822**	**705**	**3,900**

Fair value of reimbursement rights at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	–	84	–	84
Changes in the Group	–	–	–	–
Translation differences	–	– 2	–	– 2
Employer contributions	–	6	–	6
Employee contributions	–	–	–	–
Retirement benefits paid out of reimbursement rights	–	– 9	–	– 9
Interest income on plan assets	–	4	–	4
Remeasurements in equity	–	6	–	6
At December 31, 2012	–	89	–	89

Net liability from pension obligations at December 31, 2012

in million euros	Germany	USA	Other countries	Total
At January 1, 2012	336	446	216	998
Recognized through profit and loss				
Current service cost	37	19	27	83
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 15	– 15
Plan administration costs [1]	–	–	–	–
Interest expense	8	19	11	38
Recognized in equity in other comprehensive income				
Actuarial gains (–)/losses (+)	418	89	115	622
Interest income on plan assets	– 153	– 48	– 40	– 241
Interest income on reimbursement rights	–	– 6	–	– 6
Change in effect of asset ceiling	–	–	– 7	– 7
Other items recognized in equity				
Employer’s payments	– 339	– 112	– 60	– 511
Changes in the Group	–	–	–	–
Translation differences	–	– 2	– 4	– 6
Past service cost [1]	4	– 1	– 3	–
Change in effect of asset ceiling including reimbursement rights	–	5	–	5
Recognized provision for pension obligations at December 31, 2012	311	409	240	960

[1] Prior-year amount not adjusted (see notes on page 116).

Present value of pension obligations at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	**2,684**	**1,226**	**940**	**4,850**
Changes in the Group	–	–	–	–
Translation differences	–	– 38	– 25	**– 63**
Actuarial gains (–)/losses (+)	1	– 109	11	**– 97**
of which: from changes in demographic assumptions	–	23	–	**23**
of which: from changes in financial assumptions	2	– 120	13	**– 105**
of which: from experience adjustments	– 1	– 12	– 2	**– 15**
Current service cost	44	19	30	**93**
Employee contributions to pension funds	3	–	2	**5**
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 1	**– 1**
Interest expense	78	44	30	**152**
Retirement benefits paid out of plan assets/out of reimbursement rights	– 118	– 156	– 41	**– 315**
Employer's payments for pension obligations	– 18	– 24	– 13	**– 55**
At December 31, 2013	**2,674**	**962**	**933**	**4,569**
of which: unfunded obligations	83	267	103	**453**
of which: funded obligations	2,591	648	830	**4,069**
of which: obligations covered by reimbursement rights	–	47	–	**47**

Fair value of plan assets at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	**2,373**	**822**	**705**	**3,900**
Changes in the Group	–	–	–	–
Translation differences	–	– 30	– 16	**– 46**
Employer contributions to pension funds	28	–	34	**62**
Employee contributions	3	–	2	**5**
Retirement benefits paid out of plan assets	– 118	– 149	– 41	**– 308**
Interest income on plan assets	72	29	23	**124**
Plan administration costs	–	– 3	–	**– 3**
Remeasurements in equity	57	– 21	– 18	**18**
At December 31, 2013	**2,415**	**648**	**689**	**3,752**

Fair value of reimbursement rights at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	**–**	**89**	**–**	**89**
Changes in the Group	–	–	–	–
Translation differences	–	– 4	–	**– 4**
Employer contributions	–	8	–	**8**
Employee contributions	–	–	–	–
Retirement benefits paid out of reimbursement rights	–	– 7	–	**– 7**
Interest income on plan assets	–	4	–	**4**
Remeasurements in equity	–	6	–	**6**
At December 31, 2013	**–**	**96**	**–**	**96**

Net liability from pension obligations at December 31, 2013

in million euros	Germany	USA	Other countries	Total
At January 1, 2013	311	409	240	960
Recognized through profit and loss				
Current service cost	44	19	30	93
Gains (–)/losses (+) arising from the termination and curtailment of plans	–	–	– 1	– 1
Plan administration costs	–	3	–	3
Interest expense	6	11	7	24
Recognized in equity in other comprehensive income				
Actuarial gains (–)/losses (+)	1	– 109	11	– 97
Interest income on plan assets	– 57	21	18	– 18
Interest income on reimbursement rights	–	– 6	–	– 6
Change in effect of asset ceiling	–	–	– 2	– 2
Other items recognized in equity				
Employer's payments	– 46	– 32	– 47	– 125
Changes in the Group	–	–	–	–
Translation differences	–	– 4	– 9	– 13
Change in past service cost	–	– 5	1	– 4
Change in effect of asset ceiling including reimbursement rights	–	7	– 1	6
Recognized provision for pension obligations at December 31, 2013	259	314	247	820

A total of 67,600 plan participants qualify for benefits under our pension programs. The total present value (defined benefit obligation – DBO) is comprised of:

- 1,572 million euros for active employees
- 676 million euros for former employees with vested benefits
- 2,321 million euros for retirees

The average weighted duration of pension obligations is 14 years for Germany, 9 years for the USA and 20 years for other countries.

In determining net liability, we take into account amounts that are not recognized due to asset ceiling restrictions. If the fair value of the plan assets exceeds the obligations arising from the pension benefits, an asset is recognized only if the reporting entity can also derive economic benefit from these assets, for example in the form of return flows or a future reduction in contributions ("asset ceiling" per IAS 19.58 ff.). In the reporting period, we recorded an amount of 0 million euros (previous year: 2 million euros).

Within our consolidated statement of income, current service costs are allocated on the basis of cost of sales to the respective cost item. Only the net of interest expense for the present value of obligations and interest income from plan assets is reported in the interest result. All gains/losses from the termination and curtailment of plans have been recognized in other operating income/charges. The employer's contributions in respect of state pension provisions are included as "Social security contributions and staff welfare costs" under Note 32, page 158. In 2013, payments into the plan assets amounted to 62 million euros (previous year: 362 million euros).

The reimbursement rights covering a portion of the pension obligations in the USA are assets that do not fulfill the definition of plan assets as stated in IAS 19.

The reimbursement rights indicated are available to the Group in order to cover the expenditures required to fulfill the respective pension obligations. Reimbursement rights and the associated pension obligations must, according to IAS 19, be shown unnetted in the statement of financial position.

Payments into pension funds in fiscal 2014 are expected to total 30 million euros.

Analysis of plan assets

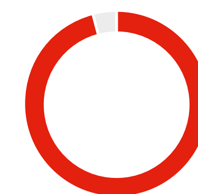
in million euros	December 31, 2012 Quotation on active markets	No quotation on active markets	Total	December 31, 2013 Quotation on active markets	No quotation on active markets	Total
Shares	896	–	896	1,038	–	1,038
Europe	358	–	358	454	–	454
USA	156	–	156	167	–	167
Others	382	–	382	417	–	417
Bonds and hedging instruments	2,455	– 96	2,359	2,410	– 11	2,399
Government bonds	747	–	747	739	–	739
Corporate bonds	1,708	–	1,708	1,671	–	1,671
Derivatives	–	– 96	– 96	–	– 11	– 11
Alternative investments	56	184	240	3	151	154
Cash	–	214	214	–	71	71
Liabilities[1]	–	– 20	– 20	–	– 120	– 120
Other assets	–	211	211	–	210	210
Total	3,470	430	3,900	3,451	301	3,752

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

Plan assets by country 2013

- 64 % Germany
- 17 % USA
- 19 % Other countries

Classification of bonds by rating 2013



- 96 % Investment grade
- 4 % Non-investment grade

The objective of the investment strategy for the global plan assets is the long-term security of pension payments. This is ensured by comprehensive risk management that takes into account the asset and liability portfolios of the defined benefit pension plans. Henkel pursues a liability-driven investment (LDI) approach in order to achieve the investment objective. This approach takes into account the structure of the pension obligations and manages the cover ratio of the pension plans. In order to improve the funding ratio, Henkel invests plan assets in a diversified portfolio whose expected long-term yield is above the interest costs of the pension obligations.

In order to cover the risks arising from trends in wages, salaries and life expectancies, and to close the potential deficit between plan assets and pension obligations over the long term, additional investments are made in a return-enhancing portfolio as an add-on instrument that contains assets such as equities, private equity, commodities and real estate. In principle, the target portfolio structure of the plan assets is determined in asset-liability studies. These studies are conducted regularly with the help of external advisors who assist Henkel in the investment of plan assets. They examine the actual portfolio structure taking into account current capital market conditions, investment principles and the obligation structure, and can suggest that adjustments be made to the portfolio.

The expected long-term yield for individual plan assets is derived from the target portfolio structure and the expected long-term yields for the individual asset classes.

Major plan assets are administered by external fund managers in Germany and the USA. These countries pursue the above investment strategies and are monitored centrally. At December 31, 2013, other assets making up the plan assets included the present value of a non-current receivable of 47 million euros (previous year: 47 million euros) relating to claims pertaining to a hereditary building lease assigned by Henkel AG & Co. KGaA to Henkel Trust e.V. Also shown here is a claim of 132 million euros against BASF Personal Care & Nutrition GmbH (formerly Cognis GmbH) for indemnification of pension obligations (previous year: 140 million euros). This claim represents the nominal value which is equivalent to the market price. In the reporting year, as in the previous year, we held no direct investments and no treasury shares with respect to plan assets in the portfolio.

Risks associated with pension obligations

Our internal pension risk management monitors the risks of all pension plans Group-wide in compliance with local legal regulations. As part of the monitoring process, guidelines on the control and management of risks are adopted and continuously developed; these guidelines mainly govern external funding, portfolio structure and actuarial assumptions. The objective of the financing strategy within the Group is to ensure that plan assets cover 90 to 100 percent of the present value of the funded pension obligations. The contributions and investment strategies are intended to ensure nearly complete coverage of the plans for the duration of the pension obligations.

Henkel's pension obligations are exposed to various market risks. These risks are counteracted by the degree of external funding and the structure of pension benefits. The risks relate primarily to changes in market interest rates, inflation, and life expectancy, as well as general market fluctuations. Pension obligations based on contractual provisions in Germany generally entail lifelong benefits payable in the event of death or disability or when the employee reaches a retirement age. In order to reduce the risks arising from the payment of lifelong benefits as well as inflation, pension benefits have been gradually converted since 2004 to what are known as modular benefits with a pension option in which the benefit is initially divided into an annuity and lump-sum benefit portion. Newly hired employees since 2011 receive a benefit based primarily on the lump-sum benefit. Generally, lump-sum benefits may also be paid out as an annuity through a pension fund. All benefits in Germany are financed through a provident fund (Vorsorgefonds) established for the purpose of the occupational pension plan. Benefits for new employees since 2011 as well as a portion of the entitlements vested since 2004 are linked to the performance of this provident fund, resulting in a reduction in overall risk to the Group. The described adjustments reduce the financial risk from pension commitments within the pension structure.
By linking the benefit to the capital investment, the net risk is also largely eliminated. An increase in the long-term inflation assumption would mainly affect the expected increases in pensions and the expected increase in pension-eligible salaries.

The pension obligations in the USA are based primarily on three retirement plans that are all closed to new employees. New employees receive a pension benefit based on a defined contribution plan. The pension benefits generally have a lump-sum option which is usually exercised. When a pension becomes payable, the amount of the lump-sum payment is determined on the basis of current market interest rates. As a result, the impact of a change to the interest rate used in the calculation is low compared to pension commitments entailing lifelong benefits. Additionally, in the USA, pensions paid once are not adjusted by amount, thus there are no direct risks during the pension payment period arising from pending adjustments. Inflation risks therefore result mainly from the salary adjustments awarded.

In addition to the pension obligation risks already presented, there are specific risks associated with multi-employer plans. In the Henkel Group, these are mainly related to the USA. The contributions to these plans are raised mainly through an allocation process based on the pension-eligible income of active employees. Restructuring contributions may also be made in order to close gaps in coverage. The risks of such plans arise largely from higher future contributions to close coverage gaps or through discontinuation by other companies obligated to make contributions.

The impact of changes to assumptions in medical benefits for employees and retirees in the USA are shown in the sensitivities analysis overleaf.

The analysis of our Group-wide pension obligations revealed no extraordinary risks.

Cash flows and sensitivities

In the next five financial years, the following payments from pension plans are expected:

Future payments for pension benefits

in million euros	Germany	USA	Other countries	Total
2014	142	105	31	**278**
2015	132	84	30	**246**
2016	131	82	30	**243**
2017	130	80	29	**239**
2018	130	79	31	**240**

The future level of the funded status and thus of the pension obligations depends on the development of the discount rate, among other factors. Companies based in Germany and the USA account for 80 percent of our pension obligations. The medical costs for employees of our subsidiaries in the USA which are incurred after retirement are also recognized in the pension obligations for defined benefit plans. A rate of increase of 7.5 percent (previous year: 8.0 percent) was assumed for the medical costs. We expect this rate of increase to fall gradually to 4.5 percent by 2028 (previous year: 5.0 percent by 2018). The effects of a change in material actuarial assumptions for the present value of pension obligations are as follows:

Sensitivities – Present value of pension obligations at December 31, 2013

in million euros	Germany	USA	Other countries	Total
Present value of obligations	2,674	962	933	**4,569**
in the event of:				
Increase in the discount rate by 0.5 pp	2,496	927	849	**4,272**
Reduction of the discount rate by 0.5 pp	2,862	1,002	1,029	**4,893**
Rise in future income increases by 0.5 pp	2,675	967	955	**4,597**
Reduction of future income increases by 0.5 pp	2,673	958	911	**4,542**
Rise in retirement benefits increases by 0.5 pp	2,810	962	990	**4,762**
Reduction of retirement benefits increases by 0.5 pp	2,547	962	883	**4,392**
Rise in medical costs by 0.5 pp	2,674	966	934	**4,574**
Reduction of medical costs by 0.5 pp	2,674	960	932	**4,566**

pp = percentage points

The extension of life expectancy in Germany by one year would increase the present value of pension obligations by 4 percent. This would have a more limited effect in the USA because a significant share of the pension plans is based on lump-sum benefits.

It should be noted with respect to the sensitivities presented that, due to mathematical effects, the percentage change is not and does not need to be linear. Thus the percentage increases and decreases do not vary with the same absolute amount. Each sensitivity is independently calculated and is not subject to scenario analysis.

(16) Income tax provisions and other provisions

Development in 2013

in million euros	Initial balance January 1, 2013	Other changes	Utilized	Released	Added	End balance December 31, 2013
Income tax provisions	255	–14	119	47	175	250
of which: non-current	66	0	3	35	50	78
of which: current	189	–14	116	12	125	172
Restructuring provisions	255	–22	100	20	127	240
of which: non-current	79	–11	7	3	30	88
of which: current	176	–11	93	17	97	152
Sundry provisions	1,274	–29	993	44	1,341	1,549
of which: non-current	186	4	46	4	107	247
of which: current	1,088	–33	947	40	1,234	1,302
Total	1,784	–65	1,212	111	1,643	2,039
of which: non-current	331	–7	56	42	187	413
of which: current	1,453	–58	1,156	69	1,456	1,626

Provisions are recognized for obligations toward third parties where the outflow of resources is probable and the expected obligation can be reliably estimated. Provisions are measured to the best estimate of the expenditures required in order to meet the current obligation as of the reporting date. Price increases expected to take place prior to the time of performance are included in the calculation. Provisions in which the interest effect is material are discounted to the reporting date at a pre-tax interest rate. For obligations in Germany, we have applied interest rates of between 0.7 and 3.2 percent.

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

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

Provisions have been made for risks arising from legal disputes in the amount of probable claims plus associated procedural costs.

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

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

The provisions for obligations arising from our sales activities cover expected burdens in the form of subsequent reductions in already generated revenues, and risks arising from pending transactions.

Provisions for obligations in the personnel sphere essentially cover expenditures likely to be incurred by the Group for variable, performance-related compensation components. The decrease of the current payroll provision is mainly attributable to the “Special Incentive 2012” payout.

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

Analysis of sundry provisions by function

in million euros	December 31, 2012	December 31, 2013
Sales	213	623
of which: non-current	5	10
of which: current	208	613
Payroll	690	517
of which: non-current	114	140
of which: current	576	377
Production and engineering	39	41
of which: non-current	22	21
of which: current	17	20
Various sundry obligations	332	368
of which: non-current	45	76
of which: current	287	292
Total	1,274	1,549
of which: non-current	186	247
of which: current	1,088	1,302

(17) Borrowings

in million euros	December 31, 2012 Non-current	December 31, 2012 Current	December 31, 2012 Total	December 31, 2013 Non-current	December 31, 2013 Current	December 31, 2013 Total
Bonds	2,451	1,173	3,624	1,383	1,078	2,461
Commercial papers[1]	–	–	–	–	35	35
Liabilities to banks[2]	–	146	146	–	117	117
Other borrowings	3	1	4	3	–	3
Total	2,454	1,320	3,774	1,386	1,230	2,616

[1] From the euro and US dollar commercial paper program (total volume 2 billion US dollars and 1 billion euros).
[2] Obligations with floating rates of interest or interest rates pegged for less than one year.

Bonds

Issuer (in million euros)	Type	Nominal value	Carrying amounts excluding accrued interest 2012	Carrying amounts excluding accrued interest 2013	Market values excluding accrued interest[1] 2012	Market values excluding accrued interest[1] 2013	Market values including accrued interest[1] 2012	Market values including accrued interest[1] 2013	Interest rate[2] 2012	Interest rate[2] 2013	Interest fixing
Henkel AG & Co. KGaA	Bond	1,000	1,015	–	1,017	–	1,041	–	4.2500	–	to 2013
Interest rate swap (3-month Euribor +0.405 %)[5]	*Receiver swap*	*1,000*	*16*	*–*	*16*	*–*	*40*	*–*	*0.5951*	*–*	*3 months*
Henkel AG & Co. KGaA	Bond	1,000	1,024	1,004	1,050	1,008	1,086	1,044	4.6250	4.6250	to 2014[3]
Interest rate swap (3-month Euribor +2.02 %)[5]	*Receiver swap*	*1,000*	*26*	*5*	*26*	*5*	*61*	*41*	*2.2053*	*2.2955*	*3 months*
Henkel AG & Co. KGaA	Hybrid bond	1,300	1,427	1,383	1,401	1,379	1,408	1,386	5.3750	5.3750	to 2015[4]
Interest rate swap (3-month Euribor +1.80 %)[5]	*Receiver swap*	*650*	*60*	*39*	*60*	*39*	*62*	*41*	*1.9902*	*2.0172*	*3 months*
Interest rate swap (1-month Euribor +0.955 %)[5]	*Receiver swap*	*650*	*78*	*51*	*78*	*51*	*82*	*54*	*1.0650*	*1.1133*	*1 month*
Total bonds		3,300	3,466	2,387	3,468	2,387	3,535	2,430			
Total interest rate swaps		3,300	180	95	180	95	245	136			

[1] Market value of the bonds derived from the stock market price at December 31.
[2] Interest rate on December 31.
[3] Fixed-rate interest of bond coupon: 4.625 percent, converted using interest rate swaps into a floating interest rate; no further interest fixing (previous year: March 19, 2013) (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 fixed on January 27, 2014 (previous year: January 23, 2013) (fair value hedge).
[5] Not including the valuation allowance in the amount of 2 million euros to provide for counterparty credit risk (previous year: 1 million euros).

The ten-year bond issued in 2003 by Henkel AG & Co. KGaA for 1 billion euros with a coupon of 4.25 percent matured in June 2013 and has been redeemed.

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

The 1.3 billion euro subordinated hybrid bond issued by Henkel AG & Co. KGaA in November 2005 to finance a large part of the pension obligations in Germany matures in 2104. Under the terms of the bond, the coupon for the first ten years is 5.375 percent. The earliest bond redemption date is November 25, 2015. If it is not redeemed, the bond interest will be based on the 3-month Euribor interest rate plus a premium of 2.85 percentage points. The bond terms also stipulate that if there is a "cash flow event," Henkel AG & Co. KGaA has the option or the obligation to defer the interest payments. A cash flow event is deemed to have occurred if the adjusted cash flow from operating activities is below a certain percentage of the net liabilities (20 percent for optional interest deferral, 15 percent for mandatory interest deferral); see Section 3 (4) of the bond terms and conditions for more details. On the basis of the cash flow calculated at December 31, 2013, the percentage was 123.11 percent (previous year: 70.56 percent).

The US dollar liabilities of Henkel of America, Inc., Wilmington, USA, in the amount of 1,340 million euros are set off against the deposit of 1,302 million euros of Henkel US LLC, Wilmington, USA, and financial collateral of 60 million euros. The net amount of financial collateral shown in the statement of financial position under "Other financial assets" is 22 million euros.

(18) Other financial liabilities

Analysis

	December 31, 2012			December 31, 2013		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Liabilities to non-consolidated affiliated companies and associated companies	–	15	15	–	15	15
Liabilities to customers	–	47	47	–	30	30
Derivative financial instruments	14	38	52	–	34	34
Sundry financial liabilities	2	11	13	2	8	10
Total	16	111	127	2	87	89

Of the liabilities to non-consolidated affiliated companies and associated companies, 7 million euros relate to non-consolidated affiliated companies and 8 million euros relate to associated companies. Sundry financial liabilities include payments owed to the Pensionssicherungsverein mutual insurance association amounting to 5 million euros (previous year: 9 million euros).

(19) Other liabilities

Analysis

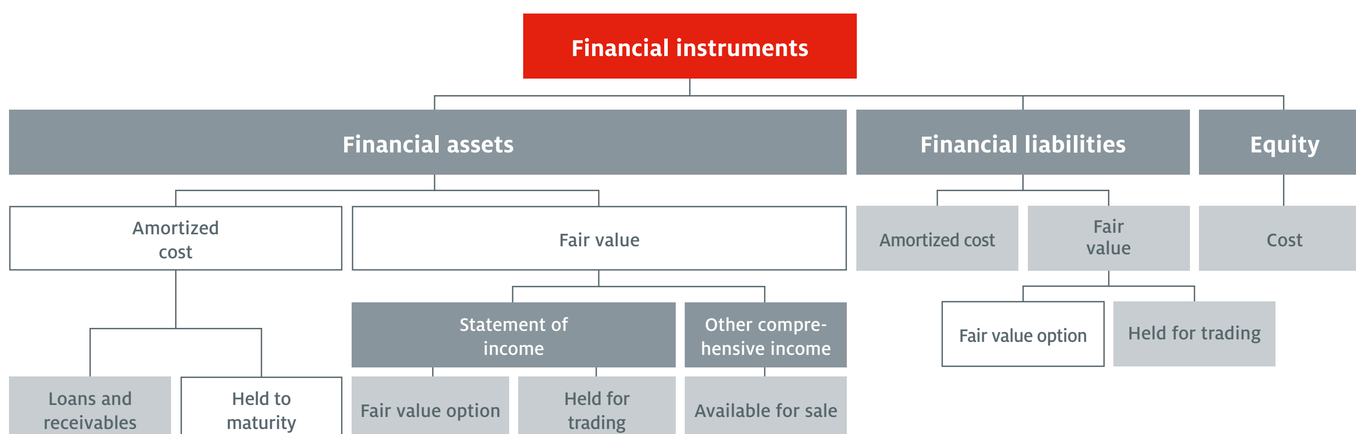
	December 31, 2012			December 31, 2013		
in million euros	Non-current	Current	Total	Non-current	Current	Total
Other tax liabilities	–	90	90	–	94	94
Liabilities to employees	2	14	16	1	17	18
Liabilities relating to employee deductions	–	56	56	–	60	60
Liabilities in respect of social security	1	19	20	1	21	22
Sundry other liabilities	15	40	55	12	38	50
Total	18	219	237	14	230	244

The sundry other liabilities primarily comprise various accruals and deferrals amounting to 14 million euros (previous year: 15 million euros) and payments on account in the amount of 4 million euros (previous year: 5 million euros).

(20) Trade accounts payable

Trade accounts payable increased from 2,647 million euros to 2,872 million euros. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. They are all due within one year.

(21) Financial instruments report



Financial instruments explained by category

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

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

Financial instruments are recognized once Henkel becomes a party to the contractual provisions of the financial instrument. The recognition of financial assets takes place at the settlement date, with the exception of derivative financial instruments, which are recognized on the transaction date. All financial instruments are initially reported at their fair value. Incidental acquisition costs are only capitalized if the financial instruments are not subsequently remeasured to fair value through profit or loss. For subsequent remeasurement, financial instruments are divided into the following classes in accordance with IAS 39:

- Financial instruments measured at amortized cost
- Financial instruments measured at fair value

Different valuation categories are allocated to these two classes. Financial instruments assigned to the valuation categories "Fair value option," "Available for sale" and "Held for trading" are generally measured at fair value. In the fair value option, we include fixed-interest bonds, which are recognized in other financial assets under securities and time deposits and for which we have concluded interest rate swaps in order to convert the fixed interest rate into a floating interest. Other securities and time deposits as well as other investments which are not measured at equity, both part of other financial assets in the statement of financial position, are categorized as "Available for sale." Only the derivative financial instruments held by the Henkel Group which are not included in hedge accounting are designated as "Held for trading." We recognize all other financial instruments including the financial assets categorized as "Loans and receivables" at amortized cost using the effective interest method. The measurement category "Held to maturity" is not used within the Henkel Group.

The financial instruments in the measurement category "Loans and receivables" are non-derivative financial instruments. They are characterized by fixed or determinable payments and are not traded in an active market. Within the Henkel Group, this category is mainly comprised of trade accounts receivable, cash and cash equivalents, and other financial assets with the exception of investments, derivatives, securities and time deposits. The carrying amounts of the financial instruments categorized as "Loans and receivables" closely approximate their fair value due to their predominantly short-term nature. If there are doubts as to the realizability of these financial instruments, they are recognized at amortized cost less appropriate valuation allowances.

Financial instruments are recognized in the "Fair value option" if this classification conveys more relevant information by eliminating or significantly reducing inconsistencies in the measurement or in the recognition that result from the valuation of assets or liabilities or the recognition of gains and losses on a different basis. Financial instruments classified in the fair value option are recognized at fair value through profit or loss.

Financial instruments in the category "Available for sale" are non-derivative financial assets and are recognized at fair value, provided that this is reliably determinable. If the fair value cannot be reliably determined, they are recognized at cost. Value changes between the reporting dates are essentially recognized in comprehensive income (revaluation reserve) without affecting profit or loss, unless the cause lies in permanent impairment. Impairment losses are recognized through profit or loss. When the asset is derecognized, the amounts recognized in the revaluation reserve are released through profit or loss. In the Henkel Group, the securities and time deposits recognized under other financial assets, and not classified under the fair value option, and also other investments, are categorized as "Available for sale." The fair values of the securities and time deposits are based on quoted market prices, or derived from market data. As the fair values of the financial investments not recognized at equity cannot be reliably determined, they are measured at amortized cost. The sale or disposal of these financial instruments is currently not intended.

The derivative financial instruments not included in a designated hedging relationship and therefore categorized as "Held for trading" are essentially recognized at their fair value. All fair value changes are recognized through profit or loss. Hedge accounting is applied in individual cases – where possible and economically sensible – in order to avoid profit and loss variations arising from fair value changes in derivative financial instruments. Depending on the type of underlying and the risk being hedged, fair value and cash flow hedges are designated within the Group. Details relating to the hedging contracts transacted within the Group and how the fair values of the derivatives are determined are provided on pages 144 to 147.

All financial liabilities – with the exception of derivative financial instruments – are essentially recognized at amortized cost using the effective interest method.

Borrowings for which a hedging transaction has been concluded that meets the requirements of IAS 39 with respect to hedge accounting are recognized in hedge accounting.

In addition to the disclosures provided in this note with respect to offsetting financial assets and financial liabilities for derivatives (see pages 148 and 149), further offsetting disclosures can be found in Note 17 ("Borrowings") on page 138.

Carrying amounts and fair values of financial instruments

December 31, 2012 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehensive income	Fair value, through profit or loss	
Assets					
Loans and receivables	**3,433**	3,433	–	–	**3,433**
Trade accounts receivable	**2,021**	2,021	–	–	**2,021**
Other financial assets	**174**	174	–	–	**174**
Receivables from associated companies	**1**	1	–	–	**1**
Financial receivables from third parties	**59**	59	–	–	**59**
Receivables from Henkel Trust e.V.	**20**	20	–	–	**20**
Sundry financial assets	**94**	94	–	–	**94**
Cash and cash equivalents	**1,238**	1,238	–	–	**1,238**
Fair value option	**537**	–	–	537	**537**
Other financial assets	**537**	–	–	537	**537**
Fixed-interest securities (level 1)	**248**	–	–	248	**248**
Fixed-interest securities (level 2)	**289**	–	–	289	**289**
Available for sale	**1,726**	18	1,708	–	**1,726**
Other financial assets	**1,726**	18	1,708	–	**1,726**
Other investments	**18**	18	–	–	**18**
Floating-interest securities and time deposits (level 1)	**1,654**	–	1,654	–	**1,654**
Floating-interest securities (level 2)	**–**	–	–	–	**–**
Fixed-interest securities (level 1)	**50**	–	50	–	**50**
Financial collateral provided	**4**	–	4	–	**4**
Held for trading (level 2)	**14**	–	–	14	**14**
Derivative financial instruments not included in a designated hedging relationship	**14**	–	–	14	**14**
Derivative financial instruments included in a designated hedging relationship (level 2)	**244**	–	–	244	**244**
Total	**5,954**	**3,451**	**1,708**	**795**	**5,954**
Liabilities					
Amortized cost	**6,496**	6,496	–	–	**6,498**
Trade accounts payable	**2,647**	2,647	–	–	**2,647**
Borrowings with no financial statement hedging relationship	**241**	241	–	–	**241**
Borrowings with a financial statement hedging relationship	**3,533**	3,533	–	–	**3,535**
Other financial liabilities	**75**	75	–	–	**75**
Held for trading (level 2)	**33**	–	–	33	**33**
Derivative financial instruments not included in a designated hedging relationship	**33**	–	–	33	**33**
Derivative financial instruments included in a designated hedging relationship (level 2)	**19**	–	19	–	**19**
Total	**6,548**	**6,496**	**19**	**33**	**6,550**

December 31, 2013 in million euros	Carrying amount December 31	Valuation according to IAS 39			Fair value December 31
		Amortized cost	Fair value, through other comprehensive income	Fair value, through profit or loss	
Assets					
Loans and receivables	3,652	3,652	–	–	3,652
Trade accounts receivable	2,370	2,370	–	–	2,370
Other financial assets	231	231	–	–	231
Receivables from associated companies	–	–	–	–	–
Financial receivables from third parties	32	32	–	–	32
Receivables from Henkel Trust e.V.	120	120	–	–	120
Sundry financial assets	79	79	–	–	79
Cash and cash equivalents	1,051	1,051	–	–	1,051
Fair value option	619	–	–	619	619
Other financial assets	619	–	–	619	619
Fixed-interest securities (level 1)	245	–	–	245	245
Fixed-interest securities (level 2)	374	–	–	374	374
Available for sale	1,805	18	1,787	–	1,805
Other financial assets	1,805	18	1,787	–	1,805
Other investments	18	18	–	–	18
Floating-interest securities and time deposits (level 1)	1,720	–	1,720	–	1,720
Floating-interest securities (level 2)	22	–	22	–	22
Fixed-interest securities (level 1)	19	–	19	–	19
Financial collateral provided	26	–	26	–	26
Held for trading (level 2)	17	–	–	17	17
Derivative financial instruments not included in a designated hedging relationship	17	–	–	17	17
Derivative financial instruments included in a designated hedging relationship (level 2)	135	–	–	135	135
Total	6,228	3,670	1,787	771	6,228
Liabilities					
Amortized cost	5,543	5,543	–	–	5,543
Trade accounts payable	2,872	2,872	–	–	2,872
Borrowings with no financial statement hedging relationship	186	186	–	–	186
Borrowings with a financial statement hedging relationship	2,430	2,430	–	–	2,430
Other financial liabilities	55	55	–	–	55
Held for trading (level 2)	31	–	–	31	31
Derivative financial instruments not included in a designated hedging relationship	31	–	–	31	31
Derivative financial instruments included in a designated hedging relationship (level 2)	3	–	3	–	3
Total	5,577	5,543	3	31	5,577

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

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

The fair value of securities and time deposits classified as level 1 is based on the quoted market prices on the reporting date. Observable market data were used to measure the fair value of level 2 securities.

We did not perform any reclassifications between the valuation categories or transfers within the fair value hierarchy either in fiscal 2013 or in the previous year.

Net gains and losses from financial instruments by category

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

Net results of the measurement categories and reconciliation to financial result

in million euros	2012	2013
Loans and receivables	55	47
Fair value option	3	7
Financial assets available for sale	11	10
Financial assets and liabilities held for trading including derivatives in a designated hedging relationship	9	– 35
Financial liabilities measured at amortized cost	– 203	– 109
Total net results	**– 125**	**– 80**
Foreign exchange effects	– 6	– 1
Interest expense of pension provisions less interest income from plan assets and reimbursement rights[1]	– 38	– 24
Other financial result (not related to financial instruments)	– 12	– 8
Financial result	**– 181**	**– 113**

[1] Adjusted in application of IAS 19 revised (see notes on page 116).

The net result of "Loans and receivables" is allocated in full to interest income. Net expenses arising from additions and releases of valuation allowances amounting to 17 million euros (previous year: 30 million euros) and income from payments on financial instruments already written off and derecognized amounting to 4 million euros (previous year: 3 million euros) were recognized in operating profit.

The net result of the securities and time deposits classified under the "Fair value option" includes interest income of 7 million euros (previous year: 1 million euros) and valuation gains of 0 million euros (previous year: 2 million euros).

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

The net result from "Held for trading" financial instruments and derivatives in a designated hedging relationship includes, in addition to the outcome of measurement of these derivatives at fair value amounting to – 94 million euros (previous year: –46 million euros), an expense of 1 million euros arising from additions to the valuation allowance made for counterparty credit risk (previous year: income from the release of the valuation allowance in the amount of 4 million euros). Moreover 60 million euros of interest income from interest rate derivatives and amounts recycled from cash flow hedges recognized in equity are also included under this heading (previous year: 51 million euros).

The net result from "Financial liabilities measured at amortized cost" is essentially derived from the interest expense for borrowings amounting to 184 million euros (previous year: 215 million euros). Also included are valuation gains of 81 million euros (previous year: 17 million euros) from borrowings in a fair value hedge relationship. Fees amounting to 6 million euros for procuring money and loans were also recognized under this heading (previous year: 5 million euros).

The realization and valuation of financial assets and liabilities in foreign currencies (without derivative financial instruments) resulted in an expense of – 1 million euros (previous year: –6 million euros).

Derivative financial instruments

Derivative financial instruments are measured at their fair value at the reporting date. Recognition of the gains and losses arising from fair value changes of derivative financial instruments is dependent upon whether the requirements of IAS 39 are fulfilled with respect to hedge accounting.

Hedge accounting is not applied to the large majority of derivative financial instruments. We recognize through profit or loss the fair value changes in these derivatives which, in economic terms, represent effective hedges within the framework of Group strategy. These are largely compensated by fair value changes in the hedged items. In hedge accounting, derivative financial instruments are qualified as instruments for hedging the fair value of a recognized underlying ("fair value hedge"), as instruments for hedging future cash flows ("cash flow hedge") or as instruments for hedging a net investment in a foreign entity ("hedge of a net investment in a foreign entity"). The following table provides an overview of the derivative financial instruments utilized and recognized within the Group, and their fair values:

Derivative financial instruments

At December 31 in million euros	Nominal value		Positive fair value [2]		Negative fair value [2]	
	2012	2013	2012	2013	2012	2013
Forward exchange contracts [1]	1,985	**2,118**	14	**17**	– 17	**– 20**
(of which: for hedging loans within the Group)	*(1,628)*	***(1,671)***	*(12)*	***(12)***	*(– 16)*	***(– 19)***
(of which: designated as cash flow hedge)	–	***(56)***	–	***(1)***	–	**–**
Foreign exchange options	–	**62**	–	**1**	–	**–**
Interest rate swaps	4,734	**3,424**	244	**134**	– 35	**– 14**
(of which: designated as fair value hedge)	*(3,300)*	***(2,300)***	*(244)*	***(134)***	*(–)*	***(–)***
(of which: designated as cash flow hedge)	*(910)*	***(508)***	*(–)*	***(–)***	*(– 19)*	***(– 3)***
(of which: to hedge financial instruments in the fair value option)	*(524)*	***(616)***	*(–)*	***(–)***	*(– 16)*	***(– 11)***
Commodity futures [1]	1	**1**	–	**–**	–	**–**
(of which: designated for hedge accounting)	*(–)*	***(–)***	*(–)*	***(–)***	*(–)*	***(–)***
Total derivative financial instruments	**6,720**	**5,605**	**258**	**152**	**– 52**	**– 34**

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

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

Interest rates in percent p. a.

At December 31 Term	Euro		US dollar	
	2012	2013	2012	2013
1 month	0.07	**0.24**	0.23	**0.16**
3 months	0.18	**0.25**	0.42	**0.25**
6 months	0.25	**0.41**	0.48	**0.38**
1 year	0.48	**0.52**	0.88	**0.59**
2 years	0.38	**0.54**	0.39	**0.48**
5 years	0.77	**1.26**	0.85	**1.79**
10 years	1.60	**2.22**	1.82	**3.17**

Due to the complexities involved, financial derivatives for hedging commodity price risks are primarily measured on the basis of simulation models, which are derived from market quotations. We perform regular plausibility checks in order to safeguard valuation correctness.

In measuring derivative financial instruments, counterparty credit risk is taken into account with a lump-sum adjustment to the fair values concerned, determined on the basis of credit risk premiums. The adjustment relating to fiscal 2013 amounts to 2 million euros (previous year: 1 million euros). We recognized the addition in profit and loss under financial result.

Depending on their fair value and their maturity on the reporting date, derivative financial instruments are included in financial assets (positive fair value) or in financial liabilities (negative fair value).

Most of the forward exchange contracts serve to hedge risks arising from trade accounts receivable and payable, and those pertaining to Group financing.

Interest rate hedges serve to manage the interest rate risks arising from the fixed-interest bonds issued by Henkel AG & Co. KGaA and the floating-interest bank liabilities of Henkel of America, Inc. See also the following explanations relating to fair value hedges and cash flow hedges and to the interest rate risk in the Henkel Group. In addition, interest rate derivatives are entered into to hedge the fair value of the fixed-interest securities classified in the “Fair value option.”

To a small extent, we use commodity derivatives to hedge uncertainties in future commodity price developments. See also the explanations relating to other price risks on page 152.

Fair value hedges: A fair value hedge hedges the fair value of recognized assets and liabilities. The change in the fair value of the derivatives and the change in the fair value of the underlying relating to the hedged risk are simultaneously recognized in profit or loss.

Receiver interest rate swaps are used to hedge the fair value risk of the fixed-interest bonds issued by Henkel AG & Co. KGaA. The fair value of these interest rate swaps is 95 million euros (previous year: 180 million euros) excluding accrued interest. The changes in fair value of the receiver interest rate swaps arising from market interest rate risks amounted to – 85 million euros (previous year: –19 million euros). The corresponding changes in fair value of the hedged bonds amounted to 81 million euros (previous year: 17 million euros). In determining the fair value change in the bonds (see also Note 17 on page 138), only that portion is taken into account that relates to the interest rate risk.

The following table provides an overview of the gains and losses arising from fair value hedges (valuation allowance made for the counterparty credit risk not included):

Gains and losses from fair value hedges

in million euros	2012	2013
Gains (+)/losses (–) from hedged items	17	81
Gains (+)/losses (–) from hedging instruments	– 19	– 85
Net	– 2	– 4

Cash flow hedges: A cash flow hedge hedges fluctuations in future cash flows from recognized assets and liabilities (in the case of interest rate risks), and also transactions that are either planned or highly probable, or firmly contracted unrecognized financial commitments, from which a currency risk arises. The effective portion of a cash flow hedge is recognized in the hedge reserve in equity. Ineffective portions arising from the change in value of the hedging instrument are recognized through profit or loss in the financial result. The gains and losses associated with the hedging measures initially remain in equity and are subsequently recognized through profit or loss in the period in which the hedged transaction influences the results for that period. If the hedging of a contracted item subsequently results in the recognition of a non-financial asset, the gains and losses recognized in equity are usually assigned to the asset on its addition (basis adjustment).

Cash flow hedges (after tax)

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2013	– 234	7	10	– 217
2012	– 347	103	10	– 234

The initial value of the cash flow hedges recognized in equity reflects firstly the fair values of the payer interest swaps used to hedge the cash flow risks arising from the floating-interest US dollar liabilities at Henkel of America, Inc. Secondly, it relates to forward exchange contracts for acquisitions in prior years and to one already contracted transaction.

Of the addition in the amount of 7 million euros, 5 million euros relates to interest rate hedging of US dollar liabilities at Henkel of America, Inc. The remaining increase of 2 million euros after taxes on income relates to the contracted transaction. The amortization of the amounts recognized in equity for the US dollar liabilities resulted in a disposal of 10 million euros after tax (15 million euros before tax). The fair value of the interest rate swaps for the US dollar liabilities of Henkel of America, Inc. amounted to –3 million euros (previous year: –18 million euros) excluding accrued interest. The fair value of the currency hedges for the contracted transaction amounted to 1 million euros. In the fiscal year under review, ineffective portions amounting to less than 1 million euros (as in the previous year) were recognized in profit or loss under financial result. Both the cash flows arising from hedging and the hedged cash flows of the US dollar liabilities of Henkel of America, Inc. are expected in 2014 and will be recognized through profit or loss in the period concerned as interest expense. The hedged cash flows relating to acquisitions of previous years will only be recognized in operating profit with disposal or in the event of an impairment loss on the goodwill attributable to the acquisition of these businesses. The cash flows relating to currency hedging and the hedged cash flows from the contracted transaction are expected to arise in 2014 and will only be recognized in operating profit with disposal or in the event of an impairment loss on the hedged items.

Hedges of a net investment in a foreign entity: The accounting treatment of hedges of a net investment in a foreign entity against translation risk is similar to that applied to cash flow hedges. The gain or loss arising from the effective portion of the hedging instrument is recognized in equity through other comprehensive income; the gain or loss of the ineffective portion is recognized directly through profit or loss. The gains or losses recognized directly in equity remain there until disposal or partial disposal of the net investment.

The items recognized in equity relate to translation risks arising from net investments in Swiss francs and US dollars for which the associated hedges were entered into and settled in previous years.

As in the previous year, no hedges of a net investment in a foreign entity were entered into in the past fiscal year. We did not transfer any amounts from equity to profit or loss in the course of the year.

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

in million euros	Initial balance	Addition (recognized in equity)	Disposal (recognized through profit or loss)	End balance
2013	35	–	–	35
2012	69	– 34	–	35

Maximum risk position

in million euros	2012	2013
Trade accounts receivable	2,021	2,370
Derivative financial instruments not included in a designated hedging relationship	14	17
Derivative financial instruments included in a designated hedging relationship	244	135
Other financial assets	2,437	2,655
Cash and cash equivalents	1,238	1,051
Total carrying values	5,954	6,228

Risks arising from financial instruments, and risk management

As a globally active corporation, Henkel is exposed in the course of its ordinary business operations to credit risks, liquidity risks and market risks (currency translation, interest rate and commodity price risks). The purpose of financial risk management is to restrict the exposure arising from operating activities through the use of selective derivative and non-derivative hedges. Henkel uses derivative financial instruments exclusively for the purposes of risk management. Without these instruments, Henkel would be exposed to higher financial risks. Changes in exchange rates, interest rates or commodity prices can lead to significant fluctuations in the fair values of the derivatives used. These variations in fair value should not be regarded in isolation from the hedged items, as derivatives and the underlying constitute a unit in terms of countervailing fluctuations.

Management of currency, interest rate and liquidity risks is based on the treasury guidelines introduced by the Management Board, which are binding on the entire corporation. They define the targets, principles and competences of the Corporate Treasury organizational unit. These guidelines describe the fields of responsibility and establish the distribution of these responsibilities between Corporate Treasury and Henkel's subsidiaries. The Management Board is regularly and comprehensively informed of all major risks and of all relevant hedging transactions and arrangements. Our description of the objectives and fundamental principles adopted in capital management can be found in the Group management report on pages 64 and 65. There were no major risk clusters in the year under review.

Credit risk

In the course of its business activities with third parties, the Henkel Group is exposed to global credit risk arising from both its operating business and its financial investments. This risk derives from the possibility of a contractual party not fulfilling its obligations.

The maximum credit risk is represented by the carrying value of the financial assets recognized in the statement of financial position (excluding financial investments recognized at equity), as indicated in the following table:

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

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

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

We make valuation allowances with respect to financial assets so that the assets are recognized at their fair value at the reporting date. In the case of impairment losses that have already occurred but have not yet been identified, we make global valuation allowances on the basis of empirical evidence, taking into account the overdue structure of the trade accounts receivable. Receivables and loans that are more than 180 days overdue are, following the impairment test, generally written off.

The decision as to whether a credit risk is accounted for through a valuation allowance account or by derecognition of the impaired receivable depends upon the probability of incurring a loss. For accounts receivable classified as irrecoverable, we report the credit risk directly through derecognition of the impaired receivable or the relevant amount in the valuation allowance account. If the basis for the original impairment is eliminated, we recognize a reversal through profit and loss.

In all, we recognized valuation allowances on loans and receivables in 2013 in the amount of 17 million euros (previous year: 30 million euros).

The carrying amount for loans and receivables, the term of which was renegotiated because they would have otherwise fallen overdue or been impaired, was 1 million euros (previous year: 1 million euros).

Based on our experience, we do not expect the necessity for any further valuation allowances, other than those described above, on non-overdue, non-impaired financial assets.

Age analysis of non-impaired overdue loans and receivables

Analysis

in million euros	Less than 30 days	30 to 60 days	61 to 90 days	More than 91 days	Total
At December 31, 2013	165	52	20	5	242
At December 31, 2012	151	46	14	4	215

Credit risks also arise from monetary investments such as cash at bank, securities and the positive fair value of derivatives. Such exposure is limited by our Corporate Treasury specialists through the selection of counterparties with strong credit ratings, and limitations on the amounts allocated to individual investments. In financial investments and derivatives trading with German and international banks, we only enter into transactions with counterparties of high financial standing. We invest exclusively in securities from issuers with an investment grade rating. Our cash deposits can be liquidated at short notice. Our financial investments are broadly diversified across various counterparties and various financial assets. To minimize the credit risk, we agree netting arrangements to offset bilateral receivables and obligations with counterparties. We additionally enter into collateral agreements with selected banks, on the basis of which reciprocal sureties are established twice a month to secure the fair values of contracted derivatives and other claims and obligations. The netting arrangements only provide for a contingent right to offset transactions conducted with a contractual party. Accordingly, associated amounts can be offset only under certain circumstances, such as the insolvency of one of the contractual parties. Thus, the netting arrangements do not meet the offsetting criteria under IAS 32 "Financial Instruments: Presentation." The following table provides an overview of financial assets and financial liabilities from derivatives that are subject to netting, collateral, or similar arrangements:

Financial assets and financial liabilities from derivatives subject to netting, collateral, or similar arrangements

At December 31 in million euros	Gross amount recognized in the statement of financial position[1]		Amount eligible for offsetting		Financial collateral received/provided		Net amount	
	2012	2013	2012	2013	2012	2013	2012	2013
Financial assets	258	154	46	19	66	54	146	81
Financial liabilities	52	34	46	19	–	4	6	11

[1] Market values excluding valuation allowance of 2 million euros (previous year: 1 million euros) made for counterparty credit risk.

In addition to netting and collateral arrangements, investment limits are set, based on the ratings of the counterparties, in order to minimize credit risk. These limits are monitored and adjusted regularly. When determining the limits, we also apply certain other indicators, such as the pricing of credit default swaps (CDS) by banks. A valuation allowance of 2 million euros exists to cover the remaining credit risk from the positive fair values of derivatives (previous year: 1 million euros).

Liquidity risk

Liquidity risk is defined as the risk of an entity failing to meet its financial obligations at any given time.

We minimize this risk by deploying long-term financing instruments in the form of issued bonds. With the help of our existing debt issuance program in the amount of 6 billion euros, this is also possible on a short-term and flexible basis. In order to ensure the financial flexibility of the Henkel Group at any time, the liquidity within the Group is extensively centralized and managed through the use of cash pools. We predominantly invest cash in financial assets traded in a liquid market in order to ensure that they can be sold at any time to procure liquid funds. In addition, the Henkel Group has at its disposal confirmed credit lines of 1.5 billion euros to ensure its liquidity and financial flexibility at all times. These credit lines have terms until 2018. The individual subsidiaries of the Henkel Group additionally have at their disposal committed bilateral loans of 0.1 billion euros with a revolving term of up to one year. Our credit rating is regularly assessed by the rating agencies Standard & Poor's and Moody's.

Our liquidity risk can therefore be regarded as very low.

The maturity structure of the original and derivative financial liabilities within the scope of IFRS 7 based on cash flows is shown in the following table.

Cash flows from financial liabilities

in million euros	December 31, 2012 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	December 31, 2012 Total cash flow
Bonds [1]	3,624	1,250	2,486	–	3,736
Commercial papers [2]	–	–	–	–	–
Liabilities to banks	146	147	–	–	147
Trade accounts payable	2,647	2,647	–	–	2,647
Sundry financial instruments [3]	79	74	2	3	79
Original financial instruments	6,496	4,118	2,488	3	6,609
Derivative financial instruments	52	38	15	–	53
Total	6,548	4,156	2,503	3	6,662

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

Cash flows from financial liabilities

in million euros	December 31, 2013 Carrying amounts	Remaining term: Up to 1 year	Remaining term: Between 1 and 5 years	Remaining term: More than 5 years	December 31, 2013 Total cash flow
Bonds [1]	2,461	1,146	1,370	–	2,516
Commercial papers [2]	35	35	–	–	35
Liabilities to banks	117	117	–	–	117
Trade accounts payable	2,872	2,872	–	–	2,872
Sundry financial instruments [3]	58	53	2	3	58
Original financial instruments	5,543	4,223	1,372	3	5,598
Derivative financial instruments	34	28	6	–	34
Total	5,577	4,251	1,378	3	5,632

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

Market risk

Market risk exists where the fair value or future cash flows of a financial instrument may fluctuate due to changes in market prices. Market risks primarily take the form of currency risk, interest rate risk and various price risks (particularly the commodity price risk).

The Corporate Treasury department manages currency exposure and interest rates centrally for the Group and is therefore responsible for all transactions with financial derivatives and other financial instruments. Trading, Treasury Controlling and Settlement (front, middle and back offices) are separated both physically and in terms of organization. The parties to the contracts are German and international banks which Henkel monitors regularly, in accordance with Corporate Treasury guidelines, for creditworthiness and the quality of their quotations. Financial derivatives are used to manage currency exposure and interest rate risks in connection with operating activities and the resultant financing requirements, again in accordance with the Corporate Treasury guidelines. Financial derivatives are entered into solely for hedging purposes.

The currency and interest rate risk management of the Group is supported by an integrated treasury system which is used to identify, measure and analyze the Group's currency exposure and interest rate risks. In this context, "integrated" means that the entire process from the conclusion of financial transactions to their entry in the accounts is covered. Much of the currency trading takes place on internet-based, multibank dealing platforms. These foreign currency transactions are automatically transferred into the treasury system. The currency exposure and interest rate risks reported by all subsidiaries under standardized reporting procedures are integrated into the treasury system by data transfer. As a result, it is possible to retrieve and measure at any time all currency and interest rate risks across the Group and all derivatives entered into to hedge the exposure to these risks. The treasury system supports the use of various risk concepts.

Market risk is monitored on the basis of sensitivity analyses and value-at-risk computations. Sensitivity analyses enable estimation of potential losses, future gains, fair values or cash flows of instruments susceptible to market risks arising from one or several selected hypothetical changes in foreign exchange rates, interest rates, commodity prices or other relevant market rates or prices over a specific period. Sensitivity analyses are used in the Henkel Group because they enable reasonable risk assessments to be made on the basis of direct assumptions (e.g. an increase in interest rates). Value-at-risk computations reveal the maximum potential future loss of a certain portfolio over a given period that, based on a specified probability level, will not be exceeded.

Currency risk

The global nature of our business activities results in a huge number of cash flows in different currencies. The resultant currency risk breaks down into two categories, namely transaction and translation risks.

Transaction risks arise from possible exchange rate fluctuations causing changes in the value of future foreign currency cash flows. The hedging of the resultant exchange rate risks forms a major part of our central risk management activity. Transaction risks arising from our operating business are partially avoided by the fact that we largely manufacture our products in those countries in which they are sold. Residual transaction risks on the operating side are proactively managed by Corporate Treasury. This includes the ongoing assessment of the specific currency risk and the development of appropriate hedging strategies. The objective of our currency hedging is to fix prices based on hedging rates so that we are protected from future adverse fluctuations in exchange rates. Because we limit our potential losses, any negative impact on profits is restricted. The transaction risk arising from major financial payables and receivables is, for the most part, hedged. In order to manage these risks, we primarily utilize forward exchange contracts and currency swaps. The derivatives are designated as "Held for trading" and are recognized at fair value through profit or loss. The currency risk that exists within the Group in the form of transaction risk therefore has a direct effect on income rather than being recognized in equity.

The value-at-risk pertaining to the transaction risk of the Henkel Group as of December 31, 2013 amounted to 74 million euros after hedging (previous year: 21 million euros). The value-at-risk shows the maximum expected risk of loss in a year as a result of currency fluctuations. Starting in fiscal 2013, our value-at-risk analysis has been extended to one year in our internal risk reports as it provides a more comprehensive repre-

sentation of the risk associated with a fiscal year. The risk arises from imports and exports by Henkel AG & Co. KGaA and its foreign subsidiaries. Due to the international nature of its activities, the Henkel Group has a portfolio with more than 50 different currencies. In addition to the US dollar, the main influence on currency risk is exerted by the Russian ruble, the Mexican peso, the Ukrainian hryvnia and the Turkish lira. The value-at-risk analysis assumes a time horizon of one year and a unilateral confidence interval of 95 percent. We adopt the variance-covariance approach as our basis for calculation. Volatilities and correlations are determined using historical data. The value-at-risk analysis is based on the operating book positions and budgeted positions in foreign currency, normally with a forecasting horizon of nine months.

Translation risks emanate from changes caused by foreign exchange fluctuations to items on the statement of financial position and the income statement of a subsidiary, and the effect these changes have on the translation of individual company financial statements into Group currency. However, unlike transaction risk, translation risk does not necessarily impact future cash flows. The Group's equity reflects the changes in carrying value resulting from foreign exchange influences. The risks arising from the translation of the earnings results of subsidiaries in foreign currencies and from net investments in foreign entities are only hedged in exceptional cases.

Interest rate risk

The interest rate risk encompasses those potentially negative influences on profits, equity or cash flow in current or future reporting periods arising from changes in interest rates. In the case of fixed-interest financial instruments, changing capital market interest rates result in a fair value risk, as the attributable fair values fluctuate depending on capital market interest rates. In the case of floating-interest financial instruments, a cash flow risk exists because the interest payments may be subject to future fluctuations.

The Henkel Group obtains and invests the majority of the cash it requires from and in the international money and capital markets. The resulting financial liabilities and our cash deposits may be exposed to the risk of changes in interest rates. The aim of our centralized interest rate management system is to manage this risk through our choice of interest commitments and the use of derivative financial instruments. Only those derivative financial instruments that can be modeled, monitored and assessed in the risk management system may be used to hedge the interest rate risk.

Henkel's interest management strategy is essentially aligned to optimizing the net interest result for the Group. The decisions made in interest management relate to the bonds issued to secure Group liquidity, the securities and time deposits used for cash investments, and the other financial instruments. The financial instruments and interest rate derivatives exposed to interest rate risk are primarily denominated in euros and US dollars.

Depending on forecasts with respect to interest rate developments, Henkel enters into derivative financial instruments, primarily interest rate swaps, in order to optimize the interest rate lock-down structure. The coupon interest on the euro-denominated bonds issued by Henkel has been converted from fixed to floating with the aid of interest rate swaps. In the event of an expected rise in interest rate levels, Henkel protects its positions by transacting additional interest rate derivatives as an effective means of guarding against interest rates rising over the short term. A major portion of the financing in US dollars has been converted from floating to fixed interest rates through interest rate swaps. The fixed interest period expires at the end of the first quarter 2014. As a result, the net interest position primarily comprises a structured mix of fixed US dollar and floating euro interest rates.

Our exposure to interest rate risk at the reporting dates was as follows:

Interest rate exposure

in million euros	Carrying amounts 2012	Carrying amounts 2013
Fixed-interest financial instruments		
Euro	–	–
US dollar	910	508
Others	–	–
	910	508
Floating-interest financial instruments		
Euro	– 260	– 827
US dollar	42	168
Chinese yuan	– 228	– 364
Russian ruble	– 129	– 106
Others	– 250	– 338
	– 825	– 1,467

The calculation of the interest rate risk is based on sensitivity analyses. The analysis of cash flow risk examines all the main floating-interest financial instruments as of the reporting date. Net debt is defined as borrowings less cash and cash equivalents and readily monetizable financial instruments classified as "Available for sale" or according to the "Fair value option," less positive and plus negative fair values of hedging transactions. The interest rate risk figures shown in the table are based on this calculation at the relevant reporting date. When analyzing fair value risk, we assume a parallel shift in the interest curve of 100 basis points, and calculate the hypothetical loss or gain of the relevant interest rate derivatives at the reporting date accordingly. The fixed-interest financial instruments exposed to fair value risk are essentially the fixed-interest rate bank liabilities denominated in US dollars.

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

Interest rate risk

in million euros	2012	2013
Based on an interest rate change of 100 basis points	– 2	– 15
of which:		
Cash flow through profit and loss	– 8	– 15
Fair value recognized in equity through comprehensive income	6	–

Other price risks (commodity price risk)

Uncertainty with respect to raw material price development impacts the Group. Purchase prices for raw materials can affect the net assets, financial position and results of operations of the corporation. The risk management strategy put in place by the Group management for safeguarding against procurement market risk is described in more detail in the risk and opportunities report on pages 92 and 93.

As a small part of the risk management strategy, cash-settled commodity futures are entered into on the basis of forecasted purchasing requirements in order to hedge future uncertainties with respect to commodity prices. Cash-settled commodity derivatives are only used at Henkel where there is a direct relationship between the hedging derivative and the physical underlying. Henkel does not practice hedge accounting and is therefore exposed to temporary price risks when holding commodity derivatives. Such price risks arise due to the fact that the commodity derivatives are measured at fair value whereas the purchasing requirement, as a pending transaction, is not measured or recognized. This can lead to losses being recognized in profit or loss and equity. Developments in fair values and the resultant risks are continuously monitored.

The influence of negative commodity price developments on the valuation of the derivatives employed is immaterial to the financial position of the Henkel Group due to the low volume of derivatives used. In the event of a change in commodity prices of 10 percent, the resultant loss from the derivatives would be less than 1 million euros.