

Notes to the consolidated statement of income

(22) Sale proceeds and principles of income recognition

Sales remained approximately at the previous year's level, at 16,355 million euros. Revenues and their development by business unit and region are summarized in the Group segment report and in the key financials by region on pages 109 and 110. A detailed explanation of the development of major income and expense items can be found in the Group management report on pages 57 to 61.

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

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

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

(23) Cost of sales

The cost of sales decreased from 8,778 million euros to 8,546 million euros.

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

(24) Marketing, selling and distribution expenses

Marketing, selling and distribution expenses amounted to 4,242 million euros (previous year: 4,302 million euros).

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

(25) Research and development expenses

Research and development expenses were slightly above the previous year's level, at 415 million euros.

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

(26) Administrative expenses

Administrative expenses amounted to 842 million euros (previous year: 785 million euros).

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

(27) Other operating income

Other operating income

in million euros	2012	2013
Release of provisions ¹	29	14
Gains on disposal of non-current assets	19	39
Insurance claim payouts	6	4
Write-ups of non-current assets	1	5
Payments on derecognized receivables	3	4
Profits on sale of businesses	2	-
Sundry operating income	49	56
Total	109	122

¹ Including income from the release of provisions for pension obligations (curtailment gains) of 0 million euros in 2013 (2012: 15 million euros).

Gains on the disposal of non-current assets include income from the sale of Chemofast Anchoring GmbH, and from the sale of enzyme production technologies in the Laundry & Home Care business unit. Sundry operating income relates to a number of individual items arising from ordinary operating activities, such as grants and subsidies, bonus credits, tax refunds and similar income.

(28) Other operating charges

Other operating charges

in million euros	2012	2013
Losses on disposal of non-current assets	8	5
Contractual termination severance payments	13	-
Impairment on assets held for sale	-	35
Impairment on other assets	-	-
Sundry operating expenses	126	107
Total	147	147

The impairment on assets held for sale relates to our companies in Iran (Laundry & Home Care and Adhesive Technologies). Sundry operating expenses relate to the settlement of a legal dispute with a former joint venture partner in the amount of 20 million euros, and to a number of individual items arising from ordinary operating activities, such as fees, provisions for litigation, third party claims, sundry taxes, and similar expenses.

(29) Financial result

Financial result

in million euros	2012 ¹	2013
Investment result	1	-
Interest result	- 182	- 113
Total	- 181	- 113

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

Investment result

in million euros	2012	2013
Income from other investments	-	-
Other	1	-
Total	1	-

Interest result

in million euros	2012 ¹	2013
Interest and similar income from third parties ²	32	36
Interest income from plan assets less interest expense for pension obligations ³	-	-
Interest income on reimbursement rights (IAS 19)	4	4
Other financial income	14	25
Total interest income	50	65
Interest to third parties ²	- 129	- 94
Other financial charges	- 61	- 56
Interest expense for pension obligations less interest income from plan assets ³	- 42	- 28
Total interest expense	- 232	- 178
Total	- 182	- 113

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

² Including interest income and interest expense, both in the amount of 30 million euros in 2013 (2012: 35 million euros), with respect to mutually offset deposits and liabilities to banks, reported on a net basis.

³ Interest expense in 2013: 152 million euros; interest income: 124 million euros (interest expense in 2012: 181 million euros; interest income in 2012: 139 million euros).

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

(30) Taxes on income

Income tax expense/income breaks down as follows:

Income before taxes on income and analysis of taxes

in million euros	2012 ¹	2013
Income before tax	2,018	2,172
Current taxes	532	571
Deferred taxes	-40	-24
Taxes on income	492	547
<i>Tax rate in percent</i>	<i>24.4%</i>	<i>25.2%</i>

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

Main components of tax expense and income

in million euros	2012 ¹	2013
Current tax expense/income in the reporting year	534	609
Current tax adjustments for prior years	-2	-38
Deferred tax expense/income from temporary differences	-50	-31
Deferred tax expense from unused tax losses	24	-
Deferred tax expense from tax credits	1	-
Deferred tax expense/income from changes in tax rates	-3	-3
Increase/decrease in valuation allowances on deferred tax assets	-2	10
Tax income from application of IAS 19 revised	-10	-

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

Deferred tax expense by items on the statement of financial position

in million euros	2012 ¹	2013
Intangible assets	-52	-6
Property, plant and equipment	3	-12
Financial assets	5	-1
Inventories	3	-1
Other receivables and other assets	-8	-28
Special tax item	-3	-3
Provisions	-36	4
Liabilities	25	13
Tax credits	1	-
Unused tax losses	24	-
Valuation allowances	-2	10
Financial statement figures	-40	-24

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

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

Tax reconciliation statement

in million euros	2012 ¹	2013
Income before taxes on income	2,018	2,172
Tax rate (including trade tax) of Henkel AG & Co. KGaA	31%	31%
Expected tax charge	626	673
Tax reductions due to differing tax rates abroad	-75	-86
Tax increases/reductions for prior years	8	-32
Tax increases/reductions due to changes in tax rates	-3	-3
Tax increases/reductions due to the recognition of deferred tax assets relating to unused tax losses and temporary differences	-2	10
Tax reductions due to tax-free income and other items	-159	-107
Tax increases/reductions arising from additions and deductions for local taxes	18	18
Tax increases due to withholding taxes	27	22
Tax increases due to non-deductible expenses	52	52
Tax charge disclosed	492	547
Tax rate	24.4%	25.2%

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

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

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

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

Allocation of deferred taxes

in million euros	Deferred tax assets		Deferred tax liabilities	
	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
Intangible assets	162	193	669	661
Property, plant and equipment	18	15	90	73
Financial assets	6	10	14	18
Inventories	36	35	6	7
Other receivables and other assets	59	48	97	59
Special tax items	-	-	43	40
Provisions	679	636	10	12
Liabilities	109	77	17	9
Tax credits	8	8	-	-
Unused tax losses	27	29	-	-
Amounts netted	- 497	- 422	- 497	- 422
Valuation allowances	- 15	- 23	-	-
Financial statement figures	592	606	449	457

The deferred tax assets of 636 million euros (previous year: 679 million euros) relating to provisions in the financial statement result primarily from recognition and measurement differences with respect to pensions. The deferred tax liabilities of 661 million euros (previous year: 669 million euros) relating to intangible assets are mainly attributable to business combinations such as the acquisition of the National Starch businesses in 2008.

An excess of deferred tax assets is only recognized insofar as it is likely that the company concerned will achieve sufficiently positive taxable profits in the future against which the deductible temporary differences can be offset and tax loss carry-forwards can be used. Deferred taxes have not been recognized with respect to unused tax losses of 93 million euros (previous year: 52 million euros), as it is not sufficiently probable that taxable gains or benefits will be available against which they may be utilized. Of these tax losses carried forward, 75 million euros (previous year: 24 million euros) expire after more than three years. State taxes relating to our US-American subsidiary account for 42 million euros (previous year: 0 million euros) of these unused tax losses (tax rate: around 5 percent). Of the tax losses carried forward, 18 million euros are non-expiring (previous year: 25 million euros).

Deferred tax liabilities of 12 million euros (previous year: 5 million euros) relating to the retained earnings of foreign subsidiaries have been recognized due to the fact that these earnings will be distributed in 2014.

We have summarized the expiry dates of unused tax losses and tax credits in the table below, which includes unused tax losses arising from losses on the disposal of assets of 9 million euros (previous year: 11 million euros) which may be carried forward without restriction.

Expiry dates of unused tax losses and tax credits

in million euros	Unused tax losses		Tax credits	
	December 31, 2012	December 31, 2013	December 31, 2012	December 31, 2013
Expire within				
1 year	4	4	–	–
2 years	3	–	–	–
3 years	–	–	–	–
more than 3 years	140	144	8	8
May be carried forward without restriction	61	52	–	–
Total	208	200	8	8

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

Of unused tax losses expiring beyond three years, 93 million euros (previous year: 104 million euros) relate to loss carry-forwards of US subsidiaries with respect to state taxes.

Equity-decreasing deferred taxes of 36 million euros were recognized (previous year: equity-increasing amount of 114 million euros). Of these deferred tax liabilities, 26 million euros result from actuarial gains and losses on pension obligations, and 10 million euros from gains and losses on cash flow hedges.

(31) Non-controlling interests

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

Their share of net income was 36 million euros (previous year: 47 million euros) and that of losses 0 million euros (previous year: 1 million euros).