



Kasper Rorsted
Chairman of the
Management Board

“We focus on implementing our strategy globally in order to deliver on our ambitious targets.”

Dear Friends of the Company,

2013 was a very important year for Henkel: We met our financial targets in a challenging market environment. At the same time, we made substantial progress toward our vision for Henkel – to be a global leader in brands and technologies.

Our actions and decisions are guided by a clear strategy for 2016: We will outperform our competition as a globalized company with simplified operations and a highly inspired team. Executing this strategy will enable us to meet our ambitious financial targets for the same period: 20 billion euros sales, 10 billion euros emerging market sales and 10 percent compound annual growth (CAGR) in adjusted¹ earnings per preferred share (EPS).

Strong business performance in 2013

In 2013, the difficult economic situation in the eurozone continued to affect consumer and industrial demand. In the United States, the economy has recovered, but was impacted by uncertainty about government budget and fiscal policy. As in previous years, emerging markets were the main growth drivers. However, they had to face currency devaluation and political instability as well as slower growth compared to previous years.

Henkel Group revenue amounted to 16,355 million euros, representing an organic growth of 3.5 percent over 2012. Nominal growth was slightly negative, substantially impacted by exchange rate developments. Adjusted¹ earnings before interest rates and taxes (EBIT) grew by 7.8 percent to 2,516 million euros compared to 2,335 million euros in 2012. Adjusted¹ return on sales increased to 15.4 percent compared to 14.1 percent in 2012. Adjusted¹ earnings per preferred share (EPS) rose by 10.0 percent to 4.07 euros.

Thanks to our continued focus on cost and strong business performance, our cash flow from operating activities totaled 2,116 million euros at the end of 2013. We were able to turn net debt of 85 million euros at the end of 2012 into a net financial position of 959 million euros at the end of 2013.

Our increased profitability and financial strength allow us to raise the proposed dividend payout ratio for fiscal 2013 to around 30 percent of adjusted¹ net income after non-controlling interests – without impacting our strategic flexibility and our conservative financial strategy. At the Annual General Meeting on April 4, 2014, we will propose to shareholders a dividend payout of 1.22 euros per preferred share. This represents an increase of 28 percent compared to 0.95 euros in 2013.

Delivering on our strategy

In order to drive the consistent execution of our strategy and deliver on our financial targets, we made sure that every employee knows and understands what we are aiming for and how they can contribute to our four strategic priorities:

Outperform – Globalize – Simplify – Inspire.

In a global survey of our 10,000 management employees, more than 90 percent of the respondents said that they know our strategy and understand how it relates to their business, teams and objectives. In this report we outline how our strategic priorities have guided everyone at Henkel throughout the year.

+ 3.5 %
organic sales growth.

15.4 %
adjusted¹ return on sales.

+ 10.0 %
adjusted¹ earnings per preferred share.

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

57%

of sales generated
by top 10 brands.

Outperform our competition

In 2013, our three business units continued to gain market shares in their relevant markets and deliver profitable growth. This successful development was driven by focusing on our top brands, powerful innovations and a clear focus on our customers.

The share of sales from our top 10 brands, including Persil, Schwarzkopf and Loctite, increased to 57 percent. As our top brands generate higher margins and strengthen our position against the competition, we aim to grow their share of sales to 60 percent by 2016.

Strong product innovations across all business units were a critical success factor. In our consumer businesses, 45 percent of sales came from products launched within the last three years. In our adhesives business, 30 percent of sales were generated with products introduced within the last five years.

In order to move our innovation processes closer to where we see future growth opportunities, we plan to open or expand seven R&D centers in emerging markets. 2013 saw the opening of four centers located in India, South Africa, South Korea and the United Arab Emirates and a significant expansion of our R&D center in Russia.

Regular “top-to-top” exchanges with our largest customers – major retailers and industrial customers – at board level help to align our business toward their expectations and growth ambitions. In 2013, we further strengthened the close relationships with our most important customers, helping us to generate a growing share of sales with them.

Globalize our company

By 2016 we aim to generate 20 billion euros in total sales for Henkel – 10 billion euros in emerging markets and 10 billion euros in mature markets. These are ambitious targets.

Emerging markets will continue to drive global economic growth, and Henkel has a strong foundation in many of these markets. In 2013, we were able to increase emerging market sales to 44 percent of total sales. However, they are also characterized by high volatility and intense competition. In order to succeed, we will strengthen our existing positions, grow our businesses by expanding into new segments and selectively enter into new markets.

In mature markets, we hold leading positions with our strong brands across a broad range of categories. While sales remained almost flat compared to 2012, we were able to further increase our profitability in these markets. In light of low growth expectations for many mature markets, we will continue to adapt and optimize our structures and processes in order to deliver profitable growth.

Simplify our operations

Standardizing, digitizing and accelerating our processes will drive our operational excellence. In 2013, we laid the foundation for improving our cost efficiency and competitiveness through a broad range of strategic initiatives.

We combined our IT and our shared services into a new Integrated Business Solutions (IBS) organization. This change will enable us to advance efficient end-to-end processes based on standardized and scalable business platforms.

By increasing the share of eSourcing we are improving our cost efficiency and flexibility. In 2013, we prepared the consolidation of our sourcing activities into eight global sourc-

44%

of sales generated
in emerging markets.

ing hubs. We also plan to combine and further align our supply chain and sourcing activities toward an integrated global supply chain organization across all business units. This will help to substantially improve our competitiveness in the coming years.

Inspire our people

Our success is built on a strong global team. We provide an inspiring, challenging and rewarding work environment for our employees around the world. We put particular emphasis on strengthening leadership, attracting and developing talents, fostering a strong performance culture, and promoting diversity in all our teams.

In a globalized world, a diverse workforce becomes a competitive advantage. We employ people from more than 120 nations at Henkel. Around 56 percent of our employees work in emerging markets – not only in manufacturing and supply chain, but a growing share in managerial and R&D roles. The share of female managers increased to around 32 percent.

As Henkel becomes more global and diverse, it is crucial that every leader knows and understands what is expected of them. Consequently, we developed a set of clear leadership principles which were successfully embedded all over the world in a series of workshops for all employees with people responsibility.

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

Committed to leadership in sustainability

We made further progress with implementing our long-term sustainability strategy. By 2030, we want to triple our resource efficiency – or as we call it: improve by “Factor 3.” To ensure we deliver on our ambitious long-term targets, we also defined intermediate targets at five-year intervals. In 2013, for the seventh consecutive year, we were named sector leader in the Dow Jones Sustainability Index and held leading positions in many other rankings.

Factor **3**

Focus on implementing our strategy

In summary, 2013 was a very successful and important year for Henkel. On behalf of the Management Board, I would like to thank all Henkel employees for their contribution to this successful business performance. I would like to extend our special thanks to our supervisory bodies for their valuable support. On behalf of Henkel, I thank you, our shareholders, for your continued trust and support. We also thank our customers throughout the world for the confidence they have shown in Henkel, our brands and our technologies.

We are fully committed to delivering on our targets. With a strong focus on implementing our strategy globally, we strive to continue our excellent performance.

Düsseldorf, January 30, 2014

Sincerely,



Kasper Rorsted

Chairman of the Management Board